

NESTLÉ S.A.

2012 FULL YEAR RESULTS CONFERENCE CALL TRANSCRIPT

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Speakers:

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Roddy Child-Villiers, Head Investor Relations, Nestlé S.A.

Slide: Title slide

Good morning everyone and welcome to the Nestlé full year results conference call. As usual, we will start with a presentation and then we will take your questions. I would like to remind you that this call is being recorded.

Before handing over to Wan Ling, I would like to update you on our plans for the coming weeks. Immediately after this call, at 10am Swiss time, Paul Bulcke will host our press conference. Our next presentation will be by Chris Johnson, Head of Zone Americas, at CAGNY, next week. Paul Bulcke will then present at CAGE in March. We are not doing our usual roadshow presentation in London next week, as we feel that the other presentations during the course of February and March render it unnecessary.

I am excited to announce that we will launch a new IR section of the Nestlé web site one week today. I think you will find that we have made it a more useful tool for you. As ever, I would welcome any feedback.

Back to today, we are not going to run through each of the Zones and globally managed businesses, which are covered in the press release, but will instead cover the key financials and then do a broader look at our performance in 2012 and the drivers for 2013.

Slide: Disclaimer

I will now take the safe harbor slide as read and pass the call to Wan Ling.

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

Slide 2 : 2012 Commitments

Thanks Roddy. Great to have you back in top form. Good morning, everyone. We are live via webcast from our home-office in Vevey. I never imagined I would spend Valentine's Day with a few hundred investors and analysts. Hopefully these results will make your hearts beat faster.

I don't need to tell you that 2012 was another tough year to be operating a global business. So let's just remind ourselves of what we set out to accomplish in 2012.

In terms of financial performance, the commitment was to deliver the Nestlé Model. We have done so.

Our key priority – and one which I told you I would be very focused on during my 1st year - was to improve our working capital performance. This we did, with a resulting big improvement also in our cash flow performance. The credit goes to all our people, who have done a fantastic job.

In terms of efficiencies, our target was to deliver at least CHF1.5 billion. We did so.

In terms of complexity, the priority was to reduce our SKU count meaningfully – we reduced our SKUs by almost 14%.

We have also increased the dividend to 2 francs and 5 cents per share.

So some good achievements from a financial perspective in 2012 but, of course, this only raises the bar for 2013.

On the strategic front, the priority was to integrate the two Chinese partnerships. The integration has gone well, and the partnerships are very much on track.

We also closed the Wyeth acquisition. This was of course great news, as we expected it to close in 2013. We have transitioned the business, started the integration, cleaned up inventory with our distributors, and we expect to meet our pre-acquisition estimates for 2013.

So, I'd describe 2012 as a good year for Nestlé, especially because of the way in which we have delivered our results. It is some years back, when our CEO, Paul Bulcke, first described Nestlé as the "and company", emphasizing our ambition to make the right choices, without compromise, to deliver top line *and* bottom line, to focus on winning in both emerging *and* developed markets - in essence to deliver today *and* to invest for tomorrow.

As I go through the details of our performance, I hope you will agree that these are broad-based results, aligned with our strategic roadmap, and achieved while continuing to do the right things for the longer term. They confirm that we are indeed the "And Company". We have lifted our performance in 2012 while laying the foundations to win in 2013 and beyond: to deliver the profitable growth, year after year, that is so engrained in the Nestlé DNA.

Slide 3: Results Overview

So now let's take a look at the highlights.

Sales increased by CHF 8.6 billion in 2012.

Organic growth was 5.9% and RIG 3.1%. To deliver this growth, we had to overcome tough 2011 comparables of 7.5% organic growth and 3.9% RIG. I have to say, for someone like me, new to Nestlé, near 6% growth on top of 7 ½% is just really awesome.

The Trading operating profit was up CHF 1.5 billion to CHF 14 billion. The margin was up 20 basis points to 15.2%.

The operating cash flow was up CHF 5.5 billion to CHF 15.8 billion. The free cash flow was up from CHF 4.8 billion in 2011 to CHF 9.9 billion in 2012.

Slide 4: Trading Operating Profit Margin

Let's now look at the profit performance.

NCE, also known as Nestlé Continuous Excellence, once again contributed over CHF 1.5 billion of savings, that's CHF 1.5 billion.

These savings are most evident in the reductions in the cost of goods sold, 30 basis points, and in distribution costs, 20 basis points.

Slide 5: Trading Operating Profit Margin

The marketing and administrative costs were up 50 basis points.

The increase in marketing costs, 30 basis points, reflects our commitment to supporting our brands and sales activities.

In constant currencies, consumer facing marketing spend was up nearly 8%.

Slide 6: Trading operating profit

The 20 basis point increase in Admin Costs in 2012 should be seen in the context of the 80 bps decline in 2011 due to the restructuring of pension plans that year.

R&D spend was up CHF 100 million, but unchanged as a percentage of sales, at 1.7%. As I go through the business review in a few minutes, you will see a lot of innovations, both for 2012 and 2013. Our pipeline is strong, whether for premium and systems, for PPP, or for Nutrition, Health and Wellness.

The net other trading expenses were down 20 basis points, below the average of recent years. The inclusion of this line in the Nestlé Model adds a degree of volatility, as you know. The important thing for us is that our people running the business, who are responsible for delivering the Nestlé Model, are held accountable also for these line items.

Slide 7: Income Statement

On this next slide, the rest of the income statement. No major changes here, year on year.

Net profit was up 11.8% to CHF 10.6 billion; earnings per share were up 12.2% to 3 Francs and 33 cents per share; and the underlying earnings per share in constant currency were up 7.5%.

Slide 8: Operating cash flow and working capital

On this next slide is our cash flow and working capital. You might recall we shared our enhanced cash flow reporting with you at the half year point. It is now fully in place.

As you can see we have significantly increased our cash flow generation, up around 50% to CHF 15.8 billion at the operating level. The key driver is our improved working capital performance.

Obviously part of the 2012 improvement is just a reflection of the easy comparable from 2011, as I said at the half year presentation. For the year as a whole we saw a significant step up in our performance in all dimensions of working capital.

I should add an obvious note of caution – such a large improvement in cash flow due to working capital, like we achieved in 2012, cannot be repeated in 2013. So you should not extrapolate the 2012 performance for 2013. That said, we will continue to drive working capital efficiency.

Slide 9: Net Debt

On the next slide you can see the net debt bridge. The 2nd half was impacted by the Wyeth closing. The year end position is helped by a good contribution from cash flow.

Slide 10: FY2012 Restatement for new accounting Standards

On the next slide, to help you with your 2013 forecasts, is an update on the restatements resulting from changes in accounting standards. We told you about IAS 19, which is pension, at the half year. The other change is the deconsolidation of joint ventures, IFRS 11. We will publish the full restated 2012 in good time before the 1st quarter sales call.

Slide 11: Financials Summary

So, just to wrap up on the financials. We have delivered a good broad-based set of numbers - once again demonstrating our ability to grow the business profitably today while investing for the future.

We achieved the Nestlé Model, we upped our brand support, we improved our cash flow and we delivered double digit growth in our earnings per share.

So now let's review the business performance...

Slide 12: Billionaire Brands

First, the Billionaire brands. As usual, they have outperformed the Group, with 7% organic growth. Highlights this year include *Kit Kat*, *Nescafé*, *Nespresso*, *Nestlé Pure Life*, *Milo*, the Infant Nutrition and milk brands, as well as *One* and *Dog Chow*. I will touch on many of these, as well as other brands in my business review.

Slide 13: Geographic Business review

Next the geographic perspective, including all our businesses, both regionally and globally managed. This is the most complete comparison I can give you with our peers. Our growth is truly broad-based, and it is achieved on the back of growth in previous years. This is key - a global company can truly claim to be winning only if it is growing everywhere, both in developed markets and in emerging, year after year.

A couple of quick comments:

In the Americas, you might remember that I told you on the 1st half call that the US had improved its RIG in each quarter. This trend continued in the fourth quarter. Both the US and Latin America grew during the year.

The US had challenges in some categories in 2012. I think the new product launches, the communications plan and the new leadership are all reasons to be more positive about the prospects for 2013 and beyond.

In Europe, we continued to grow in the West, even despite the macro issues in the region. I have to say that Team Europe, under the leadership of Laurent Freixe, has delivered in the face of shrinking local economies – just a fantastic job.

Russia has maintained its improved momentum seen earlier in the year to end with high single digit growth.

In AOA, I'm happy to report that the Zone's RIG was significantly higher in the final months of the year than in the previous period. This delivers on Roddy's forecast on the 9 month call that the region would have a stronger end to the year. We ended with double digit growth in many of the emerging markets, and Japan had a better year than it has had for quite some time.

I am now going to go through the business in detail, but rather than show the reporting units, which are in the appendix, I am going to divide my presentation between developed and emerging markets. I have to say, I was surprised to hear at our investor seminar in Shanghai last September that some of you were surprised by just how big we are in emerging markets – which of course go beyond Asia and Africa, with our large businesses in Latin America as well as Central and Eastern Europe.

Let me start with the developed markets.

Slide 14 : Developed markets

Developed markets are 57% of our sales, and grew by 2.5% in 2012.

I don't need to tell you that the trading environment in these markets has remained tough around the world, and consumer confidence remains very low. You can see this with private label in Europe and growth of the dollar stores in the US, as examples.

In that context,

We achieved share gains in Western Europe, building on those achieved in 2011, and we grew the business.

While, in the US, our market shares have for the most part been improving during 2012.

What have been the key drivers of our performance?

Our product segmentation has been critical – whether supplying moments of indulgence and pleasure with premium. Addressing cash-strapped consumers with PPPs. Or delivering on our Nutrition, Health and Wellness promise. Let me give you some examples...

Slide 15 : Developed markets: Systems

I would like to highlight Coffee. The systems – *Nespresso*, *Nescafé Dolce Gusto*, *Nescafé Milano* and *Viaggi* - are all performing extremely well at the premium end. This slide shows the new San Francisco Nespresso boutique, just opened on Grant Street, Union Square, near Saks 5th Avenue and Nieman Marcus. Roddy has been - and tells me in his usual quintessential Roddy way that it is fab.

The success of the Nestlé Professional beverage systems is one reason for that division's continued ability to grow around the world, despite an extremely tough environment for the "out-of home" industry.

Slide 16: Developed markets: Nescafé

But coffee is more than just systems. See in this picture the lower priced refill packs in the UK. The value offerings in Southern Europe, particularly in Greece. The Hispanic range in the US. And Nestlé Professional's value system, *Alegria*, which is now in over 60 markets, are all performing well.

Nescafé was key to our successful year in Japan, where the *Barista* machine has sold one million units since launch in 2010.

2013 is Nescafé's 75th anniversary. The Nescafé story is one of non-stop innovation, which has seen it go from a tin of soluble in 1938 to the world's number one hot beverage brand, present in 180 countries.

It is amazing to me to see an 80 year old brand with sales of over CHF 10 billion deliver 8% organic growth in 2012.

Slide 17: Developed markets: Nesquik, Boost, Gerber pouches

Our Nutrition, Health and Wellness focus was also key in 2012. Let me give you 4 examples:

- the first : new lower-sugar recipes driving growth for *Nesquik*
- the second: the performance of the new *NaturNes* baby foods in France
- the third is *Gerber* organics in the US;

- and fourth, last but not the least: the market share gain for the relaunched *Boost*, part of the Nestlé Health Science portfolio.

Slide 18: Developed markets: S.Pellegrino, Poland Spring, Buxton

Our Water business both demonstrates the benefit of segmentation and validates our focus on Nutrition, Health and Wellness – after all what can be better for you than drinking water? The business has seen good growth at the premium end with *S. Pellegrino* across developed markets, and in regional waters such as *Poland Spring* in the US and *Buxton* in the UK, and at the value end with *Nestlé Pure Life*, also in the US and UK.

Slide 19: Developed markets: Kit Kat, Piccolini, Peelable ice cream

Initiatives in other categories, for instance letting consumers choose flavours for *Kit Kat*, such as the green tea one on the screen, which, oh by the way, happens to be my all-time favourite. I was visiting with an investor in South Korea she told me that, every time she goes to Tokyo she stuffs her suitcases with the green tea *Kit Kat*, I don't blame her it is really fantastic. The next one on the screen are the multi-packs of mini *Buitoni* pizzas, and peelable ice cream have all played their part. *Kit Kat* became the number 1 chocolate brand in Japan in 2012: a fantastic achievement for a brand that was launched in 1935 in the UK and is delivering near double digit growth globally nearly 80 years later.

Slide 20: Developed markets: PetCare

Then there is PetCare which has continued to be a strong contributor. They have delivered compelling innovations, addressing different segments and channels. For example, they have launched a super-premium offer in the US, while at the same time, by contrast, making good inroads into the Dollar store channel. In Europe PetCare has also taken share in key markets.

Slide 21: Developed markets: Hard discounters, Pound stores, Amazon.

I mentioned dollar stores. Channel development is important in Europe, whether it is the hard discounters, still growing fast, or the pound stores in the UK. And then there are the online retailers, another relatively new channel for food, as well as our own online activities.

Slide 22: Developed markets: Southern Europe

Key too has been our ability to find opportunities to grow in Southern Europe, as demonstrated by the performance of our Coffee business in Greece. Greece a country where unemployment has tripled since 2008 to 25%. Overall, we were able to keep growth near flat in Portugal, Spain, Italy and Greece, where the economies have shrunk. The categories that have helped, apart from Coffee, include Ice Cream and Chocolate. Our performance in these markets demonstrates that, for Nestlé, for us; all markets have opportunities for growth, no matter how weak their economies.

Slide 23: Developed markets – Driving growth in 2013 and beyond.

Sticking with developed markets, I'd like to look briefly now at what we have been doing in 2012 to ensure continued growth in 2013 and beyond – including investing in R&D, in innovation and consumer communication.

This commitment to investment is one of the key takeaways of my presentation.

I have already told you that we increased our media spend and that our total marketing spend was up 30 basis points. One of the things that I believe sets Nestlé apart, is our commitment, regardless of shorter term challenges, never to sacrifice future development just to meet shorter term targets.

Let's have a look at what we have done in 2012.

We announced two new R&D centres in developed markets. The first was the Nestlé Institute for Health Science. Working closely with Nestlé Health Science, it will focus on personalized science-based nutritional solutions to help prevent or manage chronic diseases.

The 2nd was a global centre for our clinical trials, attached to our R&D centre here in Switzerland. This is the first time we have centralized our clinical development work. Clinical trials are recognised by food authorities as a robust way of assessing the effect of nutrients or foods on consumers. Because of that, we welcome the increased rigour that exists around claims, which means that the ability to make claims is more important today than ever. This new centre will be at the heart of our efforts to drive competitive advantage through our claims.

We also enlarged our global chocolate product technology centre in England. This will work on our innovative ideas around manufacturing, raw material processing, product reformulation and packaging.

Innovations are the cornerstones of our ability to deliver growth and to remain differentiated from our competition, whether it is private or branded.

Slide 24: Developed markets – Driving growth in 2013.... Lean Cuisine, Di Giorno Pizzeria

In the US, there is a stream of innovation coming through in our frozen business. This includes *DiGiorno Pizzeria*, to which I give my personal seal of approval, and *DiGiorno Italian Favourites*, and *Lean Cuisine Salad Additions*.

Slide 25: Developed markets – Driving growth in 2013.... Häagen-Dazs, Skinny Cow, Outshine

And in ice cream *Häagen-Dazs Gelato*, *Outshine Fruit bars* and *Skinny Cow Candy Bars*.

Slide 26: Developed markets – Driving growth in 2013.... Nespresso, Kit Kat, Juicy Roasting

There will also be new capsule options and machines coming for *Nescafé Dolce Gusto* and *Nespresso*, some innovations in *Nescafé*, new flavours in *Kit Kat*, range extensions in *PetCare*, innovations in *Maggi*, so a very full pipeline.

Slide 27: Developed markets – Driving growth in 2013.... Communication activities

With a lot of innovation to come, it is natural that we will be continuing to provide an appropriate level of communication and brand support. We will also continue to exploit opportunities in digital media.

Slide 28: Developed markets – Driving growth in 2013.... Facilities

Turning to investment, we announced a new factory for *Nescafé Dolce Gusto* in Germany, for *Nespresso* in Switzerland, and for Nestlé Health Science and *PetCare*, in Australia. We have

extended lines in a range of factories across Europe and the US. Important to note therefore that we continue to see many opportunities for growth in the developed markets, even despite the challenges.

Slide 29 Developed markets: Nestlé in society

Finally on developed markets, a few words on Creating Shared Value. I think many people associate our social activities more with emerging markets – working with farmers and the like, but we are also very active in the developed markets. Some examples:

In the US, we are partnering the Academy of Pediatrics as the founding sponsor of a new organization called “The Institute for Healthy Childhood Weight”. This is dedicated to the prevention and treatment of childhood obesity.

We are also working with the International Association of Athletics Federations to encourage school kids to get into sports and to educate them about the benefits of exercise.

At the other end of the age spectrum, we are working with the Osteoporosis Foundation to help make people more aware of what can be done to prevent this disease.

And in the Carbon Disclosure project, Nestlé topped the list of companies disclosing and cutting their carbon emissions.

Let’s now look at the emerging markets.

Slide 30: Emerging Markets

Our sales in emerging markets are now over CHF 39 billion. This makes us the biggest player in our industry in the emerging markets, a fact which is sometimes overlooked, not really sure why. This represents 43% of our sales and is accretive to the Nestlé Model.

The emerging markets had organic growth of 11% in 2012. The BRIC markets and our PPPs, which are sold mainly in emerging markets, both also grew by about 11%. A number of markets, including Greater China, Africa and the Middle East achieved double digit growth. We had high single digit growth in Russia, Brazil, South Asia and others.

This is a good performance in a trading environment that, while definitely very positive, slowed a bit in the final months of 2012.

Let’s have a look at some of the catalysts for our 2012 performance.

Slide 31: Emerging Markets – Delivering growth in 2012

We have maintained a good level of innovation. Examples in AOA are:

- *Maggi Magic Meals* in the Philippines and Malaysia,
- *Nestlé Omega One* to reduce cholesterol,
- *Milo* with added fibre,
- a new ready-to-eat version of *Golden Morn* cereal in Africa,
- and a further roll-out of the peelable ice cream across the zone.

Slide 32: Emerging market – delivering growth in 2012

And in Latin America, apart from the famous peelable ice cream, launched in a number of markets,

there have been regional launches and roll-outs of the *Maggi Juicy* range, of *Nescafé* with micro-grounds, and of Greek yoghurt.

We also launched two firsts in Mexico: the first shelf-stable yoghurt and the first drinking yoghurt that helps reduce cholesterol.

Slide 33: Emerging markets – Delivering growth in 2012 - Kit Kat, chocolate bars, Fitness

A big success was the launch of *Kit Kat* in Brazil. We also had a success there in the out-of-home channel with two Nutrition, Health and Wellness chocolate offerings – a diet white chocolate bar and a no-lactose, no-sugar bar. We also launched a range of *Nestlé Fitness* snack bars.

Slide 34: Emerging Markets – Delivering growth in 2012 – Nutrition, Water, Dairy

Nutrition, Health and Wellness is arguably even more important in emerging markets than developed. This is especially true for emerging consumers who spend a very high proportion of their incomes on food, and who do not have the protection of insurance and cannot afford the luxury of being ill.

Nestlé Pure Life grew rapidly: emerging markets now represent about 20% of our water business;

The Dairy business saw good growth on the back of its strong nutrition credentials and communication

And the Infant Formula and Infant cereals businesses both grew double digit, with innovations being rolled out across their markets.

Slide 35: Emerging Markets – Delivering growth in 2012 – Nestlé Professional

One aspect that people perhaps over look in emerging markets is “out of home” consumption. Nestlé Professional saw double digit growth. It serves the extremes, from supplying food ingredients for traditional “on street” vendors to providing coffee systems to the western QSR chains that are springing up everywhere and want a high quality, easy to operate, coffee solution.

China is today Nestlé Professional’s third biggest market, and will likely be No 2 in 2013.

Slide 36: Emerging Markets – Delivering growth in 2012 - PetCare

PetCare in emerging markets grew about 20%, including in Latin America, where sales are now around CHF 1 billion. It enjoyed 40% growth in Russia.

So I would conclude on 2012 by saying that we had a good year in emerging markets. There was strong growth, a good contribution to the Group’s margin improvement, and an improved working capital performance.

Slide 37: Emerging markets – Driving growth in 2013 and beyond - Factories

But we weren’t simply focused on delivering in 2012. Just like in the developed markets, it is the same in the emerging: much of our energy was spent on securing a successful future.

We are in the fast moving consumer goods, and one thing is for sure: they move even faster in emerging markets. You cannot wait for opportunities to come to you, and you cannot wait to invest. If we want to continue to win in the future, we need to be positioned to lead today.

We announced or opened factories in Malaysia, the Philippines, the Congo, Angola, South Africa, Chile and Sri Lanka, and we have extended lines in many factories, including in Russia, China and India.

We also opened three R&D centres in emerging markets: two in China, in Xiamen and Dongguan, and one in India.

Slide 38: Emerging Markets - Driving growth in 2013 and beyond - Chinese acquisitions/brands

Our two Chinese partnerships, Yinlu and HSu Fu Chi, are meeting our expectations. We are also excited by what we can learn from them.

These transactions have significantly increased our scale in AOA – our sales there in 2012 were up by a quarter.

We have also begun the integration of Wyeth. This is a great fit with our existing business – in terms of geography, brand positioning as well as know-how.

Slide 39: Emerging Markets – Driving Growth in 2013 and beyond – Distribution

We have continued to expand our distribution, for example reaching an additional 1,000,000 points of sale in 2012 in AOA. This extends our sales footprint for 2013.

As an example, you have already heard about the boat we use on the Amazon to reach consumers: we now have one in Bangladesh – you can see it in the picture - where about 80% of the population lives in rural areas.

Slide 40: Emerging Markets – Driving growth in 2013 and beyond – Russia

Another likely positive for 2013 is Russia. We are seeing improving trends there, helped by now having local manufacturing in coffee and increased capacity in PetCare, as well as an improved chocolate portfolio. We have also seen an extremely strong take-up for *Nescafé Dolce Gusto* - the best selling system there in its first full year on the market.

Slide 41: Emerging markets: Nestlé in Society

I will finish my global tour with a few words about our creating shared value activities in emerging markets. I have mentioned Coffee quite often today, so I will start there.

We have many programmes with coffee farmers.

- In 2012 we extended our commitment with Colombian farmers for a further 5 years.
- We launched a programme to help farmers in Haiti, and we are working with 20,000 farmers in Vietnam.
- We also opened our first coffee demonstration farm in India.
- All these initiatives have a shared objective – to ensure a high quality crop for us and to improve the standards of living for the farmers.
- Nespresso, meanwhile, sources 100% of its coffee direct from farmers. Do you know that only about 1% of the world's coffee beans are good enough quality for *Nespresso*? Only about 1%, no wonder people love the *Nespresso* coffee.

Turning to chocolate. We scaled up the Nestlé Cocoa Plan, increasing the amount we source directly from farmers, aiming to reach 15% of our total supply this year. We trained 21,000 farmers in 2012 and we distributed 1,000,000 high-yielding, disease resistant plantlets.

We also continued to work with the Fair Labor Association to try to eradicate child labour from cocoa farming.

Our biggest inter-action with farmers is in Dairy. Among other initiatives, we have opened a training farm in China and are working with the authorities in Morocco to improve dairy farming practices.

Finally, one initiative that crosses all crops. Since 2001 we have reduced our own greenhouse gas emissions per tonne of product by 50%. We are now working with our farmers to help them also reduce their emissions.

Slide 42: Delivered in 2012...well set for '13 & beyond

This concludes my presentation. To recap:

As I said at the half year, this year was not a walk in the park. Even so, we delivered a good, broad-based set of results, delivering on top line once again, *and* on the margin, *and* on the earnings *and* on the cash flow.

We delivered in emerging markets *and* in the developed world.

We have brought dynamism to our categories

We have brought exciting, far reaching consumer-driven innovations to our products and brands

And our innovations go beyond products: we are bringing new services to our consumers, *and* we are finding new ways to engage with them.

We have grown the portfolio across all segments, in premium systems and products *and* in PPPs.

And we know there is no room for complacency - which is why we have continued to invest for the future: to invest in our people *and* brands, to invest in R&D, and to invest in our capacities *and* our capabilities.

And we have done so while respecting our commitment to create value both for our shareholders *and* for those societies in which we operate.

This sets us up well to win in our markets around the world not just in 2013 but also beyond. To deliver the Nestlé Model. And to continue to drive the consistent growth, the performance improvement, and the brand investment that is the Nestlé DNA.

Q & A Session

Thank you very much for listening. I'd now like to open for discussion and will pass the call back to the operator.

Questions on Growth in Zone AOA Net Debt

Eileen Khoo, Morgan Stanley:

My first question is on zone AOA, if I look at the growth in the fourth quarter, it was about 5.9%. So that's still substantially below the usual double-digit run rate. Would it be right to assume then that the one-off issues that you raised in the third quarter was still impacting growth to an extent maybe

in October and November last year, and therefore your underlying growth may actually has been higher excluding that?

And then the second question is on the balance sheet, I mean your net debt is now back at CHF 18 billion which I think was your original target before you made the Pfizer acquisition. So can you share with us how you're thinking about the capital allocation and possibly a return of your share buyback program at some point? Thanks.

Wan Ling Martello:

Let me address the question on AOA. First of all, the markets we had highlighted in Q3, in the nine-month call, that Roddy had highlighted, they've all come back, they've all reversed the trend. And so, really happy to see the performance, the reversal of the trend in AOA markets towards the end of the year.

But also want to highlight that H1 performance and in terms of growth for AOA was unusually high. If you look back in recent years, AOA's growth has averaged in the high-single digit. And so we do not expect any different for 2013 and going forward.

In terms of net debt, you're completely right. It was a few years back, if I recall, that we had guided net debt to be in the CHF 15 billion to CHF 18 billion range by 2013, excluding acquisitions. So you're completely right. Despite Pfizer acquisition, we're now at CHF 18 billion the close of last year. So, we're very happy about that.

So, what we usually say on share buyback, whereas the dividend policy is one of a sustainable dividend policy, for share buyback it's more opportunistic. So, to the extent that we have excess cash, we will always consider a share buyback program.

Roddy Child-Villiers:

I think also on AOA, Eileen, I think you need to strip out the impact of the pricing because pricing has obviously trended down in each quarter during the year, so that has a negative impact on the trend in the fourth quarter, if you like. But the trend in RIG is absolutely clear. When you look at the RIG in AOA for the final quarter compared to the previous quarter, there's a very significant improvement.

Questions on	Input costs Powdered and Liquid beverages category
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Patrik Schwendimann, ZKB:

I have a question regarding input costs. What are your best guess estimates for 2013?

And my second question is regarding the Powder and the liquid beverages. The margin was down 20 basis points for the full year, but was down 60 basis points in H1 so a clear improvement H2. What should we expect here for the future in terms of mix? Your investing a lot in *Dolce Gusto*, for example, in new boutiques. What is your best guess for the future in terms of margin development? Thank you.

Wan Ling Martello:

In terms input costs, what we had guided for last year, for 2012, was exactly spot on. For 2013 we are not giving any guidance because we only give guidance if we anticipate high input cost volatility which we do not anticipate for 2013.

In terms of Powdered and Liquid Beverages category, it was down for three main reasons. Input cost was up. The second thing is our continuing investment in *Nescafé Dolce Gusto*. And the third one being we were lapping in some markets with pension cost benefit in 2011 that was not repeated in 2012.

Roddy Child-Villiers:

And the second half trend that you referred to, I have not actually looked at the second half numbers but clearly, the input cost pressure that Wan Ling referred to is greater in the first half than the second half.

Patrik Schwendimann, ZKB:

Looking into the future?

Roddy Child-Villiers:

We would – as we do with the other categories, we would want the Powdered and Liquid to contribute to the Nestlé model. But I think one has to remember that *Dolce Gusto* now is a materially-sized business. It is a fast-growing business and because it's still in sort of launch phase in a number of markets is still dilutive to Powdered beverage margins. So that's clearly a drag that is there and is now on purpose because clearly, every time you overcome a margin accretive business for that division.

Patrik Schwendimann, ZKB:

Right.

Wan Ling Martello:

Let's also look back on the point of the presentation which is that we deliver on short term but also have the courage to continue to invest in the future and *Nescafé Dolce Gusto* clearly is a great example of that.

Questions on	Zone AOA Working Capital Dividend
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Jon Cox, Kepler Capital Markets:

I have a couple of questions for you. Actually it's good to see that AOA appeared to improve in Q4, but just looking at the Americas and emerging markets overall, it appears there was a deterioration in Q4. So I was just wondering was that something specific potentially to Brazil? I know it's a very big market for you.

And is it more of a macro issue there or am I being wrong with my assumptions that it is a Latin America slowdown we saw towards the tail end of the year which knocked emerging market growth overall versus the nine month figure you gave? That's the first question.

Just on the second question -- and congratulations on the cash flow statement. It's obviously very, very positive. I'm just wondering what you think you can do in the future in terms of working capital, trade working capital as a proportion of sales. Do you have any target in terms of percentage of sales? I know you've always said you can't compare us to someone like a Danone or Unilever; we're not going to go negative. But clearly you could probably do a little bit better in terms of trade working capital as a proportion of sales. So I'm just wondering should we be expecting a 50 basis points improvement a year, is that the sort of average you're looking for. What is your thinking there?

And I'm just going to slip in very quickly, the dividend at CHF2,05 wasn't really very generous given the fact that the cash flow statement was so good and I was just wondering what your thoughts were on that dividend payout.

Wan Ling Martello:

Let me go back so it's on the three questions. On the working capital you're exactly right. We're not going to repeat because in 2011 it was working capital increased by 2 billion and 2012 it went down by 2 billion. So you're not going to see the kind of delta improvement in 2013. That said, we will continue to focus driving working capital efficiency both in terms of absolute as well as a percent of sales. Now we do not guide and we do not share externally, but we do have internal targets. So the focus, management's focus on working capital, which was great in 2012 will continue in 2013 and beyond.

On your first question in terms of emerging markets, pricing for AOA did slow down towards the second half of last year.

And back to dividend?

Roddy Child-Villiers:

Yes, Jon on the dividend, I think you need to put it in the context of the ratio and we were quite clear during the course of last year in saying that our focus was on the absolute amount of Swiss franc we were paying rather than increasing the ratio because of where we already are in the ratio. I think we've been consistent with that.

Just going back to the emerging markets, I think the issue is the pricing because it's clear that the RIG has continued to improve in the emerging markets in the fourth quarter. And as – even if you ignore, AOA it's improved in the other emerging markets.

But and we told you think at the nine months if you remember, we did a resetting of the pricing for coffee in Russia, a very big change to the Gold Blend pricing. That has a significant impact in emerging markets. And then in Latin America, as with the case earlier in the year, the pricing has come off a bit. But the underlying growth of the RIG has continued to improve in the fourth quarter.

Jon Cox, Kepler Capital Markets;

Okay. Because if you look at emerging markets overall it appears there was another deceleration, probably below 9% in Q4 in the organic. And when I do my backing out on the Americas of the RIG, it looks like RIG was actually a little bit weaker in Q4, but maybe I'm doing my sums wrong.

Roddy Child-Villiers:

The key driver is the pricing.

Wan Ling Martello:

Yes.

Questions on	Japan CapEx
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Alain-Sebastian Oberhuber, MainFirst:

Just two questions. The first is about Japan. Could you elaborate a little bit more which categories grew faster? How was the development of the categories excluding Coffee and Confectionery?

And second question is about CapEx spend when you compared it to sales. Will it be similar in 2013 as we saw in 2012?

Wan Ling Martello:

Yes. Let me -- on the two questions, in terms of CapEx our guidance will be about the same level as in 2012.

And in terms of Japan, *Kit Kat*, like I said, did really well. So Confectionery did really well. Coffee also did very well. The Barista machine had an outstanding performance.

Roddy Child-Villiers:

Yes, Alain, those two categories are about 80% of our Japanese business. The smaller categories they performed fine, but frankly if we don't get those two right we won't get Japan right. And they're both doing very well.

Wan Ling Martello :

Really good to see Japan come back, and not only in terms of growth, in terms of profitability, but their market share is also up, which is really good to see.

Roddy Child-Villiers:

And in Coffee it's not just the *Barista*. *Barista* is obviously a great success, but also *Dolce Gusto* is doing well and so is the traditional soluble business. So it's doing well across the board.

Alain-Sebastian Oberhuber, MainFirst

But for pricing and volume, was both up? Was pricing flat and only volume up?

Roddy Child-Villiers:

We had a little bit of both.

Questions on	Guidance US performance
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Warren Ackerman, Société Générale:

Couple of questions. Wan Ling, can I get some of your thoughts on some of the other moving parts for 2013? Obviously there's lots of moving parts. I'm thinking about any kind of colour on gross margins, your marketing spend. Should we expect a similar run rate in cost saves? And is there anything you would like to say on the first-half/second-half phasing on organic growth and margin? And that's the first question.

And then secondly you said at the Q3 stage that you were looking for a strong performance in Q4 in the US, obviously your biggest market. And I think at the Q3 stage you said that the macroeconomic situation in the US was improving, but also your market share trends were picking up as well. And I'm just wondering whether you're able to tell us what the Q4 organic growth was versus Q3 in the US. I know you don't like to split it out because it's obviously hard to see the US in isolation when it's lumped in with Latin America. Back at the Q3 stage you even sounded a bit more confident on categories like frozen food, which has been struggling for some time.

So the question is could you maybe just walk through some of your US categories, what's happening to market shares and has there been an overall pick up in the weighted category growth in foods in the US? Thank you.

Wan Ling Martello:

In terms of guidance for next year obviously we always stick to the Nestlé model and also continuing our commitment in terms of NCE of CHF1.5b in savings. So that's for like our guidance.

In North America it's really good to see as we closed the year that RIG continues to be up. Market share also continues to be up. And in terms of the frozen aisle categories we actually saw good momentum, closing the year. So quite happy with the way we ended the year and coming into 2013.

Roddy Child-Villiers:

I think, as you've pointed out yourself, Warren, we don't give the Q4 numbers. But broadly speaking the US performance was in line with the developed market performance in the fourth quarter and, as you know, that was quite positive so it was a good performance.

Warren Ackerman, Société Générale:

(Inaudible) ... I think at the Q3 stage one category you said that wasn't up was water I think because there were some issues with private label. Is there any kind of big variances in market share in some of your bigger categories in the US -- I'm thinking PetCare, confectionery -- or are they all generally moving in the right direction?

Wan Ling Martello:

Yes, Warren, if you think about the businesses that started the year really well, so your PetCare and your Coffee, your *CoffeeMate*, Confectionery, they're still doing very well. And in terms of the ones that didn't start out well, which is basically the frozen aisle, it's improved during the course of the year both in terms of RIG and market shares.

Roddy Child-Villiers:

And also, Warren, my comment was talking about Nestlé USA in the zone. If you were to broaden that to Nestlé in the US then my comment would have been an understatement of how well it performed because Nestlé Waters had a very strong fourth quarter in terms of sales, partly because of Hurricane Sandy, and the other globally managed businesses contributed as well. So that would mean Nutrition, Nutrition improved as well, and *Nespresso* also had a good quarter. So in fact the US is looking good.

Questions on	Guidance for Zone AOA Guidance on delivering on the Nestlé Model
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Celine Pannuti, JP Morgan:

My first question is coming back on Zone AOA. I understand your guidance like that may come back to rather a high single digit like-for-like versus double digit, but equally Q4 was not what I would call high single digit. So can you try to give us a bit more colour maybe by big countries on why was the number at around 5.8%? And am I right in understanding that December was much better and towards the high single digit? Is that what you are trying to say for 2013?

Secondly on your guidance on delivering the Nestlé model and your commitment to continue to improve trading margin, if I'm correct, the acquisition of Wyeth should have a positive margin impact both in terms of the higher mix of the margin and as well the potential savings. Do we look at this on top of the underlying business model of Nestlé in terms of margin expansion? Thank you.

Wan Ling Martello:

Yes, in terms of AOA we -- there was a 250 basis points improvement going in terms of RIG in Q4 and so it's now back to the long-term average in Zone AOA. And at the NIM -- so that's for the Food and Beverage. At the NIM level it was even stronger.

Our guidance for -- in terms of Wyeth Nutrition, our guidance -- you're correct it's accretive and that we do not foresee any change in 2013. That's a deviation from our earlier guidance when we announced the signing of the deal early -- almost a year ago in April. So our guidance continues to be the Nestlé model for 2013 and that's all-in, including the Wyeth Nutrition.

Roddy Child-Villiers:

I think it's also the question of relative scale, Celine, in that it's a good margin business, but it's CHF2b of sales as against CHF90b of sales. So the incremental margin impact on the Group as a whole is not enormous.

I think on AOA it's always difficult to compare a quarter to a year or a quarter to a trend. But if you think about 2012 as a whole, the big markets, China, Africa, Middle East are double digit. South Asia is high single digit. These businesses are performing -- and the emerging markets as a whole in AOA were double digit. So these markets are performing broadly the way you'd expect them to perform. We've turned Japan around after many years of struggling in a difficult economy. So I don't see why our expectation of returning to an average level of growth in AOA for the year is unreasonable and we effectively did the average in 2012 despite one weak quarter.

Celine Pannuti, JP Morgan:

I understand (inaudible) is like an average, historical average, but pricing has decelerated to 1%. What is the outlook therefore for local inflation and local pricing in AOA next year or in '13, sorry?

Roddy Child-Villiers:

We didn't hear the first half of your question, but I think --

Celine Pannuti, JP Morgan :

Sorry the question was the RIG has come back to around mid single digit but pricing, as you rightly say, has been weakening. Nevertheless 1% pricing, given the local inflation in those markets, seems light. So I was wondering whether we should see a rebound in pricing in '13 in AOA.

Roddy Child-Villiers:

Well, we're not going to give you a forecast on the pricing for AOA, but clearly you have to also factor in not just raw material cost inflation, but wage inflation and other issues as well. And the markets will take the pricing they need to take. But that is all factored into our expectation of AOA performing well.

Questions on	SKU Rationalization China RIG
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David Hayes, Nomura:

Just two from me. Just I think you mentioned earlier about SKU rationalization and part of that being the working capital management. I just wondered whether that was any kind of influence on the RIG performance in the second half of the year and whether you can try and quantify if there was any impact?

And then secondly just following up on some of the discussion around emerging markets, just looking at China specifically, can you confirm that the RIG in China in the first half and the second half was the same kind of level? Thanks very much.

Wan Ling Martello:

No, I can confirm that in terms of the SKU rationalization there's no material impact *vis-à-vis* RIG. So that did not happen.

In terms of China RIG, first half and second half, it's a bit lower but nothing material. It's a bit lower due to tough comparison if you go against 2011.

Roddy Child-Villiers:

And, by the way, it's double digit in both halves.

Questions on	Restructuring Pricing at Group level in 2013
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Alan Erskine, UBS:

Okay. Yes, just a couple of quick questions. One is on restructuring. I seem to recall a year ago Jim indicated that you thought restructuring costs might go up a little bit in 2012, and they actually seem to have gone down a tad. So I just wondered if you could give us some colour on that. And I guess also any guidance you can as to what that line item might do in 2013.

My second question is on pricing again. If I've done my math right I think pricing in Q4 was about 1.6%. Clearly you do have some inputs coming down which may need to be reflected in lower selling prices. Can you give us any guidance at all as to what pricing might do at the Group level in 2013, if even just to say that it could be a bit above or below the normal trend?

Wan Ling Martello:

In terms of restructuring, as you know, the items in that category tend to be volatile. And it's strictly triggered by business decisions so we do not forecast or give particular guidance in terms of that, those line items.

In terms of pricing, we had the benefit of pricing going from 2011 to 2012 and clearly we saw a deceleration in pricing for the balance of 2012. But having said that, we also did take new pricing actions. So going into 2013 we guide on organic growth and we don't break it out by RIG or pricing.

Alan Erskine,UBS:

Okay. Could I just follow up? You mentioned you'd taken new pricing in 2012. Could you give us any idea what the level of sequential pricing was in the second half of last year, just to get a handle on what would be the pricing simply due to carry over from increases that you took during 2012?

Roddy Child-Villiers:

We don't try and work it out. It's a hugely complicated thing to do and it doesn't really bring us at the centre much benefit. The important thing for us is that the people in the different markets are taking the pricing they need to take. And I can tell you that PetCare has taken pricing and clearly you're aware of the grain costs in the US. They've taken pricing I think globally. Culinary has taken a bit of pricing. Milk's taken pricing in Latin America. Milk beverages have taken pricing. So there's been pricing in a number of categories in the final months of the year that obviously will play through into 2013, but we can't give you a number on what that impact is.

Questions on	Nespresso Tax Rate
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Jeremy Fialko, Redburn Partners:

So, yes, just a couple of questions from me. First of all on *Nespresso*, can you talk about how that finished the year and what your expectations for that are in 2013?

And then the second question is on the tax rate. That looks like it's a little bit lower than we had thought in 2012 and what the expectation for your 2013 tax rate is. Thanks.

Wan Ling Martello:

Jeremy, in terms of *Nespresso* we are very happy to say that it met expectations in terms of growth rate, profitability in 2012 and we continue to have high expectations from our *Nespresso* business going into 2013. As you know, at the half year call I had said that we were not going to give a lot more details in terms of our *Nespresso* business given the competitive environment that we're in, but just know that *Nespresso* met expectations and we continue to have high expectations of that business.

The rate, tax rate is actually similar to last year and we do not give guidance on underlying tax rate going into 2013. So we don't anticipate anything significantly different.

Jeremy Fialko, Redburn Partners:

From the 2012 rate?

Wan Ling Martello:

Yes.

Roddy Child-Villiers:

We don't give guidance on the reported. The underlying is around 27%.

Wan Ling Martello:

It will be about the same.

Questions on	Margins within the Zones
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Robert Dickinson, Citigroup:

I've just a quick question on margins within the zones. I see that you've continued to improve margin in Zone Europe, just by over 200 basis points improvement in 2011. And then in Zone AOA there's just 10 basis points of improvement in 2012. Is this what we should expect going forward in terms of continuous improvement in Zone Europe and was the margin improvement in Zone AOA a bit below your expectations?

Wan Ling Martello:

No. Our expectation is that margin should continue to improve for all businesses for all zones. What had happened in AOA, if you recall, in the half year point we did say that there was a slight dilution from our two Chinese partnerships Yinlu and Hsu Fu Chi for -- that caused AOA to come down a bit. And so going forward we don't give guidance for zones and GMBs, but we do -- our internal expectation is that all businesses should improve year on year.

Questions on	Southern Europe RIG Development in Q4 Growth of business in the discount channels and online
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James Targett, Berenberg Bank:

Thank you for taking my questions. Just a couple from me. Firstly on could you give some colour on the RIG development in Southern Europe in Q4 versus the nine month period?

And then secondly you mentioned the positive development in the discount channels and online channels in developed markets. I wonder if you could give some colour on the growth here and the size of the business that it accounts for now.

Wan Ling Martello:

Let me take the online markets. The online ecommerce is going to continue to grow. Obviously from an industry perspective we've seen the migration of categories like electronics, apparel and consumables have tended to be slower in terms of migration. But having said that, that will happen. And so what we have done is in different markets, in the UK, in Switzerland, we've started to work with either the pure-play online players and also been experimenting on our own in this space. So that's the answer to the online market.

In terms of the Southern European markets, Greece did really well thanks to coffee and ice cream. There's really no big change between how we ended the year versus the nine month sales results that we shared a few months ago.

Roddy Child-Villiers:

Basically it was in line with the nine months.

Wan Ling Martello:

Yes. And what's most exciting about that is despite the economies, the challenges, the macroeconomic challenges, it's really innovation that's driving that. So you see then the Nescafé Dolce Gusto, the different products in our PPP line-up continues to help us win in very tough markets like Greece, Spain, Italy.

James Targett, Berenberg Bank:

Can I just quickly follow up on the first question, just in terms of the discount channels in Europe? Was there a significant difference in growth in these channels than for the region as a whole?

Roddy Child-Villiers:

The discount channels have been growing faster than the traditional retail channels. And I think there's -- this is also, as we succeed in those channels in Europe there can be an impact on pricing. But I would just remind you of what we have talked about a few years ago now when we first started talking about hard discounters and discount channel, which is that the cost to serve these channels is often a lot lower than the cost to serve other channels. And so even if the pricing appears to be suffering as a result, in fact it's not impacting the overall profitability of the business. And so we're very excited about the opportunity in those channels.

Wan Ling Martello:

Yes, true. And this is clearly a phenomenon not just in Europe but also in the US.

Question on	Margins
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Jeff Stent, Exane BNP Paribas:

Just a quick question on margins. I know you focused on the newly-defined margin, but is it still you are well within the business to actually achieve underlying margin improvement each year, i.e. excluding trading items, or is that no longer percolating through the business? Thanks.

Wan Ling Martello:

First of all our Nestlé model on trading and operating profit, I'm very, very proud of what the team has accomplished in 2012, delivering 20 basis points above 2011. And this is done despite the fact that we have increased our spending in marketing. This despite the fact that we were lapping against some one-time benefit in 2011 like the pension restructuring benefit.

This despite the fact that I mentioned in the presentation what great news that we closed on the Wyeth Nutrition business early, much earlier than we had anticipated. I think we guided last year that it was going to happen sometime in Q1 of 2013 and it happened in end of November. So when we took over the business in December of last year we had some transitional costs. We took the business over and we had a lot of inventory at the distributor level. So we did the right thing, which is clean out the inventory in December. And so we had transitional costs as well as early integration costs that were not anticipated.

So very proud of the team that they were able to do the Nestlé model at 20 basis points despite this headwind.

Roddy Child-Villiers:

I think also, Jeff, it's a very good question, but the other way to think about it is that because of the low level of what you're calling non-underlying costs, the bar is tougher for 2013. And we need to deliver the Nestlé model in 2013 as well and so arguably that makes what you're calling the underlying margin improvement more and more important. So we are absolutely focused on delivering the Nestlé model and delivering it in the way that we always have, which is we'll ask the team to invest in the brand. And if that means delivering your underlying margin then that's what we have to do and that's what the markets are focused on.

Questions on	Dolce Gusto Pfizer business divestitures
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Andreas von Arx, Helvea:

Two questions. The first one will be if you could give any details on *Dolce Gusto*, either a sales number or growth rate.

And the second question, if you could give an update on these remaining countries of Pfizer acquisition in Latin America or, let's say, a number in percentage of sales of businesses that you would have to dispose.

Wan Ling Martello:

In terms of Pfizer, we had said earlier I think in one of our calls, maybe yours Roddy, but we had said that it's about 15% of the business will be divested. And we're clearly at this point working with the local regulatory agencies in terms of divesting the business. So nothing significant, 15%.

In terms of *Dolce Gusto*, Roddy, I don't think we disclose the growth for *Nescafé Dolce Gusto*.

Roddy Child-Villiers:

I think we risk getting into another *Nespresso* situation. But it's high, very high, hundreds of millions of sales, and it's growing well into double digit.

Wan Ling Martello:

I can probably say this that *Nescafé Dolce Gusto* sooner than later will become part of our Billionaire Brands.

So that would give you a good sense of the size of the business, growing very, very fast.

End of Q & A Session

Thanks for your questions. As I said, 2012 was a good year for Nestlé, and one which leaves us fit to win again in 2013.

Thanks again and good-bye.

END OF TRANSCRIPT