2012 NESTLE INVESTORS SEMINAR SHANGHAI
Q &A SESSION

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Speakers:

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Wan Ling Martello, Chief Financial Officer, Nestlé S.A.
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Paul Bulcke, Chief Executive Officer, Nestlé S.A.

Introduction

Well, first of all, I just wanted to say what a pleasure it is to be here with you, and in the Shanghai. From what I've heard you had a very interesting day yesterday already. So, the idea of taking it out of Switzerland is that it's so hard to make you feel what Nestlé is all about in the markets, on the lake of Geneva. I mean, it's sometimes also a challenge for ourselves to make the Nestlé organization feel the crisis out there, or the opportunities out there, on the calm lake of Geneva.

So, I really hope that we are conveying to you already, a little bit of the reality of these things that we always discuss, like saying we are engaging in China, or we are investing more in emerging markets, because they are emerging. So, that is actually the whole idea, and I hope you share the same enthusiasm as we share, being in this part of the world.

Also, the visit of Hsu Fu Chi and the Nescafé factory is actually showing two faces of our reality, which is our classical business, as you have seen in Nescafé, yet not so classical because of the opportunity and the growth potential it has and presents. And also Hsu Fu Chi, how we work in different business models and joint ventures, and how the dynamics of really engaging in China in another way is helping us to accelerate our presence here.

I don't want to lose more time from me saying what I want to say, I just want to keep the floor to you and go for the first question. So, let's use the time and give the floor to you.

Question on; Update on Zone AMS, USA and Brazil, and Zone Europe

Jon Cox, Kepler Capital Markets;

Good morning. Obviously, you're going to get lots of the questions about AOA. I wonder if I could start just on the Americas and Europe. I wonder if you could sort of give a bit of an update on the situation in the US market, and Brazil, specifically, and also a little bit of an overview in Europe, if you would? Thank you.

Paul Bulcke;

That's a short question that invites a very long answer. Well, first of all, North America and Europe, these are markets that are not showing the growth figures that we would like to see there. Actually, I believe this whole crisis we're talking about and the difficult markets, is a crisis that is going to need time to get resolved completely. So, that creates then an environment where confidence from consumers is low.

That's a global, contextual comment on these two parts of the world. They happen to be still very important parts of the world. I say still because that's going to change over time, I believe. But, that is the environment we're working in. Yet, at the same time, we do have to grow, even in spite of low consumer confidence. And that is what we do in Europe and that's what we do also in North America in certain categories.

We have a big category, which is frozen, that is under pressure. I would say the whole category, and that is quite a big part of our mix. So, that is actually affecting a little the whole growth figures that you have seen of North America. On the other side, Coffee, Confectionery, and others like Dairy are growing quite nicely. In fact that we are gaining market shares in these categories.

We believe, though, in innovation, and that's why we are engaging quite dramatically in new innovation in North America that are platform innovations, not only product innovations, but really building platforms. Like we have aseptic [technology], which is a pre-investment to create that platform to deliver in the future -- growth there.

Europe, we have two phases, we have the north and the south. Confidence is low in the south. In the north, there is more discipline, but still, the whole environment does not really give Europe a tail wind, but we don't wait for tail winds. We believe, even with head winds, we have to have an engine strong enough to be able to keep our pace. And that's why we have growth in Europe.

The platforms we have, like Dolce Gusto and others, not only one or two ideas. This is broad spread through all categories -- through innovation.

Also, the cleaning up of SKUs in Europe. I believe there was an overgrowth of SKUs, and there was a hyperventilation of innovation. I don't say Nestlé per se, but the whole industry. That is going to help also to grow in Europe. We see growth, pizza in Europe is growing very nicely for us, and gaining market share, we're gaining a lot of markets shares in many categories in Europe too.

So, it is a combination of two things, innovation, market shares, and really engaging in the categories that do give you some growth.

You spoke about Brazil as a specific question. Brazil is growing nicely for us too. We do see, though, that Brazil may have an engine that is warming up, and that's something we are starting to prepare ourselves for. Brazil is a part of Latin America and we know Latin America very well. These are always waves. Brazil has served a very nice wave for the last so many years. We hope it's going to continue.

There's still, and in these countries it's very important, the World Cup, and then the Olympics, so that's going to give us a little bit of time for growth. But we have to be prepared, also, that it may all of a sudden, not stop, but at least not be at the same level as we are used to seeing. And that is what, I believe, a company like ours should be prepared for. And understanding, seeing these trends and adapting to them. But, I believe there is still a lot of upside.

We have just, as you know, a few years ago, started to engage in the northeast in Brazil. We are starting engaging with our products in many areas where we didn't have distribution, nor the product portfolio specifically geared towards that part of the country. And these are showing very good growth prospects.

So again, it's a combination of when you have tailwind, you have high growth potential, when you have head winds, you have to do more. You have to wake up a half an hour earlier. These are the areas that we are engaged in.

Now, all of that said, it has to be combined with the rest of the world. I believe the strength of our company is that we can spread these risk damages out, like Africa. And you're going to see this afternoon, you have it in your program, Africa. This is a continent that has shown 5%, 6% growth in the last 10 years. And I believe in Africa that they're really engaging in their own structures. That's a different way of going about Africa. Africa believing in itself is going to be the real solution long term. And it's going to have some growth problems too.

So, that is really engaging in all categories, all dimensions of the world, and with different rhythms and different investment needs, and that's why you have these differences. And the strength of a company like ours is that we can spread it out, and that we do have the managerial capabilities in the markets to do that.

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

Let me just build on also on Europe. In my roadshows, a lot of our investors, long-term investors, were intrigued by how we managed to grow in Europe despite the very challenging environment. Zone Europe grew 2.4% in the first half of this year, and one of the reasons is, aside from the growth platforms like Dolce Gusto, like PetCare, it's going really well.

Our PPPs also doing very well. People tend to think our PPP products are only for emerging markets, well not so. The whole idea of why we have -- if you look at the spectrum from Nespresso to the PPP products, we want our consumers to trade down or up, but not to trade out. And so, PPP in Europe is growing at 2.5 times faster than Zone Europe's growth. So, that's one of the key pillars.

And in terms of, like Paul said in North America, we do have challenges -- Frozen being one of them, being a category leader. And so, we'll see.

Question on;	**The Nestlé Model**

David Hayes, Nomura Securities;

We heard a lot this morning about the additional CapEx, working capital, although I know focus has gone up, so there's been this investment going into the business.

For that to be creating value, I guess the argument is, the Nestlé model has to step up a level. Should we think about the Nestlé model being a high-growth level, a higher margin performance level because of this investment, or are you having to invest more today to basically maintain that performance? Thanks.

Paul Bulcke;

The Nestlé model, it's very nice that we call it the Nestlé model, because it's the basics of successful company. There's top line, bottom line capital efficiency. That comes down then, actually, to return on investment capital, and as we are growing faster in certain parts of the world, that asks for investment. It is building the capabilities to be successful in an emerging market, you need to build capacities for that.

Food is quite a local business. 95% of all that we sell is produced, locally or regionally, which is part of our strength that we are able to do that, and having the managerial capacities to manage these businesses, or these factories in all these markets.

It is true too that when the emerging markets emerge there is more volumetric at the beginning, although we have a two-prong strategy of premium, PPP and mainstream. But, in general, the growth of the emerging market is quite volumetric. So, you need the capacities. And it is clear that we do have a process that is very disciplined inside our company to really give the priorities where we have to.

It is clear that also the emerging markets are showing, lately, very strong growth projections that allow us to invest longer term.

As you know, I started my career in Latin America, and we had growth there too, but a lot of volatility. So, before you invested you thought twice, but the strength of our company has been that we have done that wisely many years. So, that experience we do have. There's lots of capacity increase, and also a new kind of factories. We call them finishing factories, which allow us to be close to the consumer and maintain the flexibility.

Two months ago, I was in Angola to inaugurate a small factory. It was 3,500 square meters, but that's in a country that allows us to project it's already CHF100 million market for us, country, first factory that we opened there. These are finishing factories.

Actually, we put, in one factory, different finishing machinery, so that we can adapt our portfolio towards local needs, but we provide them with the raw material from somewhere else. That allows us to have minimum investment, [to be] very close to the consumer, so freshness with products, but also the flexibility that we're looking for in an environment that is not stabilized yet.

So, we do have different factory models and operational models, in the supply chain also, to adapt to that changing, volatile, environment. So, that's where the investment goes.

Question on; Long term view of Coffee and Tea business

Marco Gulpers, ING;

I've got a question on Coffee and Tea. Could you share with us your longer-term view, say in 5 to 10 years time, on how you see the markets developing, and especially the changing competitive landscape, not only in the out-of-home, but especially also in the in-home systems going forward? What is your specific view on tea in that combination? So, Coffee and Tea. Thank you.

Paul Bulcke;

The Coffee market is a fascinating market, and we have with our Nescafé, the biggest brand in the Coffee world. So, we're really going to embrace that brand, and that dynamic of instant Coffee, which is gaining still, versus roast and ground, over the last years, and still growing well, growing quite vigorously. It is linked also with the emerging markets, and you have visited a factory that is actually proving that.

So, we are leading this instant Coffee market with a brand like Nescafé, and we're going to drive that further in the future. So, we're embracing our own Nescafé brand intensively. That's one.

What we see is portion Coffee. And with Nespresso we have the super-premium, and it's going strong. It is so successful that we have quite a lot of other models coming in. We, actually, worldwide, have 50 to 60 systems in the market. So, sometimes, you feel Nespresso is the only system that is no attack. No, we have 50 to 60. So Nespresso was, for many years, growing very strongly in a market that was equipped with competition.

So, that is a market that is showing very strong growth potential still, because as you see the penetration of these models is very low still, although, it is a very sizable value market already.

So, we have with that model a system that is not going to retail, in Nespresso. We have Dolce Gusto that goes through retail. And then we have also the out-of-home, and you have seen a few machines with the Milano, and the Nescafé Alegria, and also we have the Nescafé Barista.

So, these models are actually showing how we go to the Coffee market. First of all, Nescafé, stronghold and inspiring that market through permanent innovation, permanent quality innovation, and covering all segments. You see PPP in Nescafé, and you see the super-premium. That is one market.

The second one is then, Nespresso, which is top of the line, espresso experience. And we are phasing that all over the world. If you think that Europe is 75% of the Nespresso world, even 80% of the Nespresso world, there's lots of growth potential there, not only in deepening penetration in Europe, but in geography.

Dolce Gusto is just starting outside Europe, in Latin America and we're going to North America too. And so that's retail Coffee systems for Nestlé.

And out-of-home, we are just starting a journey with the new machines. You have the Viaggi, which is super-premium. We have the Milano for the premium. You have examples here. We already introducing it in China. And then you have the Alegria, which is more mainstream. And the Barista, which is a smaller footprint that can go in-home or even out-of-home.

So, that's the way we go about that market and I believe that we cover quite well. This is warfare, where we have different divisions working the different battlefields.

And, now tea. Tea is not a market. The more you can make Coffee interesting, it's competing also, because at the end of the day, it's all hot beverages. We have Special T, though. We do know about tea. Nestea is ours, but -- where we combine knowing about systems, portion systems, and highest quality and luxury, those dynamics work very well for us and we're playing that out in Special T.

And we are just starting. We started in France. We know it already for a year in Switzerland, and it's going very well. So, we're rolling that out now in a few other countries, and that's going to go its own way. And that's where we want to play in the tea market. Tea, as we see for Nestlé, has to be portion tea. That's where we want to be strong in. And that is what we are investing in now for the future.

Questions on;	**Competitors in PPP segment** **Net Working Capital**

Alain Oberhuber, MainFirst;

Question for you, Paul, concerning PPP. That's obviously a success story up to now. Do you see any competition now arising from other multi-national companies, or local companies in the same segment as you operating PPP?

And then, a second question for Wan Ling about net working capital. You stated that you would like to reduce your net working capital, but not squeezing your suppliers. But who will give in then in order that you will have lower net working capital and efficiency improvement in that direction?

Paul Bulcke;

I'm sorry. It's very hard to hear your question. Let's go to the first one. You say PPP, do you see other companies copying or --

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Alain Oberhuber, MainFirst;

Others companies going into that direction as well and being a competitor for you in the PPP segment.

Paul Bulcke;

I don't feel PPP is new. I mean, it's a basic objective of every company to adapt portfolios towards its consumers. We called it PPP because in an organization like ours, you have to align and direct energies. So, we called it PPP because we spoke more about the emerging consumer – we spoke about 1 billion new consumers coming in, and to gear your market mix towards that part of the society looks like a huge opportunity. So we called it PPP to align lots of energy, lots of initiatives, towards that gaining of the whole market mix.

We called it PPP because we said, it is not just a small format for the emerging consumer, it is the whole marketing mix. And that's why we have called this whole -- it's not an initiative, but this whole way of going about emerging consumer, PPP. So, it is not only the product *per se*, it is also the format. It is the distribution. It is the communication. It is the whole market mix, geared toward the emerging consumer.

I believe that logic works for all companies, So, we do see companies that are engaged in emerging markets, using and gearing the whole marketing mix towards that consumer too. You read books like 'The bottom of the pyramid' -- that is inducing this thinking, which is a dynamic that a company, like Nestlé and others, are in. The opportunity is there. There is an emerging consumer. That's an opportunity. How do you adapt our market mix towards that opportunity, and how can you drive your presence in the country toward these initiatives?

Now, companies like ours, were basically mainstream. We had the mainstream. We were for the middle, which is what normally you do, because that's where the volume, combined with the margin, is and we do cover that. What we are doing now to a certain extent is segmenting more our offerings.

And then, when you have part of society that is huge, like emerging consumer, or like the northeast of Brazil. You speak about northeast of Brazil, it's 55 million, 60 million people. Well it is a big enough an amount of people to gear a whole market mix, and that's the PPP initiative.

We know the long (inaudible) that's clear. It's like everything we do. We have competition, and I do believe that competition is very healthy, because it keeps us awake. So, you do have more literature, and more writing about this whole thing, which is linked with the fact that emerging markets and the developing markets are growth markets. And so, it's the new world. So, we have more of these new opportunities. We have more of these PPP initiatives that are meaningful. And that's why you hear so much more about it.

We call it PPP. The others call it differently. But, it's gearing the market mix towards part of society, which is emerging.

Wan Ling Martello;

I think there's part two to the question. But also on PPP, it's about 15% of our sales now is in PPP. And it's interesting. If you think about the product peelable ice cream in Nandu's presentation, that started in Thailand. We've taken it to so many other markets.

Every single market where we introduced peelable ice cream, it became the number one selling SKU in that category. And it has a fantastic gross margin. And it's only 60-some calories serving, so it's got the, the nutrition element also. So, the power of PPP is not just -- hey, it's a low price for our consumer, but it brings a lot of other elements, which makes it successful.

To a question about net trading working capital. I had a separate conversation during the break with Jon Cox here. We do not manage net trading working capital by just saying a vanilla approach, and say -- okay everybody, we are targeting x percent of sales. I mean, we obviously have a goal from a group perspective, but we do it by depending on market and -- with enough granularity. So, if you talk to Laurent Freixe of the Zone Europe, or you talk to Nandu, or you talk to Kozo in Japan, their looking at all the specifics, whether it's inventory, receivables.

And so, it's not about we're not willing to squeeze the suppliers. For instance, in some markets, we're saying -- look you know what, our credit worthiness, you can leverage on that one. So, on our global suppliers, we're working having them leverage on our credit worthiness, so that they're cost of capital is not that high.

On inventory, it's a tricky -- I mean, you have to be careful. It's not as simple as -- well, get your inventory low. Yes, we want inventory to be low because freshness is important to us. We want our product to be fresh when it reaches the consumer. But equally important, if you think about Zone Europe, where our trading partners are very challenged, it's a tough environment for them. Our customer service level in Europe is 99.5%.

Do you know what that means? It means -- and this is food and beverage, it's a lot harder to get that kind of a service level. Every time a shipment goes out, it's correct. It's on time. It's correct, on time, and so that's hard to get. But the fact that we got 99.5% is because we don't want our trade partners to have to deduct the invoice. And so, when you think about inventory it's not as simplistic as just getting it down.

So, you'll hear it today in today's presentation when they talk about how they're managing working capital, you'll get a better sense.

Paul Bulcke;

But working capital is about trade-offs. So, that's a little bit what you said, Wan Ling. It is about trade-offs. And definitely, you have to challenge it permanently, because a trade-off, 99.5%. What about 99%? And so, it's not just one figure for the whole world. In Europe, we lost out with the retail because we didn't have the service levels. We brought it up, that was first priority, to bring it back up level. Now, we're going to challenge also -- what does it cost for it? So, it is a balance. It is balancing out to dynamics there.

Questions on;	**Balance of elements in the Nestlé Model** **Centralization of non-consumer facing functions**

Jeremy Fialko, Redburn Partners;

A couple of questions. In the presentation this morning, Nandu gave a very interesting answer in terms of the balance of the countries, the categories, and the SBUs. Now, if you had to say, you think you've got your balance right between the importance of all of those elements within your business model, or do you think you need to give more of power, authority to one over the other?

And I suppose a linked question to this is how you talked about centralizing all the functions which are not the specific, direct consumer facing importance. And how much further do you think that process has got to go, and how much of a driver do you think that can be to your operating margins? Thank you.

Paul Bulcke;

It's pretty hard to understand one of the questions, because you spoke about the balance between countries, categories, and SBUs. That is what Nandu spoke about. And your question is now, how to, how far --

Jeremy Fialko, Redburn Partners;

Do you think you've got the balance of those elements correct, or do you think that you need to kind of emphasize, perhaps, one more than the other. Do you think -- that was really where I was getting at. And in the second question, have you got the second part in terms of the centralizing of your services, and the margin benefits that you can get from that?

Paul Bulcke;

Well, first of all, on the balance between countries, and categories, and SBUs, there's no one answer again. You see we have different business models. We have business models or businesses, categories that are basically linked with zones, or the countries. And then we have regional managed businesses, and then we have also global managed businesses, like Water, Nutrition or Nespresso.

Again, we believe that the consumer and the generating demand should define the business models. But we do have always that in a country, we have the Nestlé in the market concept, which is then gluing the whole, I would say, physical presence of Nestlé, all the categories together again.

But what I believe is that a fundamental strength of Nestlé's is that we are fundamentally decentralized. P&L is made in the markets. Sales are done in the markets. So we give a lot of executional power to the markets, because that's where the execution is done. We are fundamentally decentralized company. And that goes above everything.

Now, decentralization doesn't mean autonomy or independence, because we do have a roadmap. We do have a global inspiration. We do have a global definition of where the journey of this company goes. And all that is execution in a market should converge towards that goal. Now, the realities in the market, do invite decentralization.

Now, the SBUs is the platform, is the platform per category, because I don't see a difference of category and SBUs. The SBU's are platforms of knowledge collection, that allows the tapping into the realities of the markets, to have a platform where we can wisely shape strategic direction over a certain category. That then fuels the R&D innovation processes, et cetera

In a globalized world, there's lots of opportunities of global ideas that invite global R&D spend, that then flow back into the markets, that are then adapted to the local flavour, the local branding, or the local dynamics of retail, or competition, et cetera. Who better than the market to do that? What you cannot have is a company where every market has a totally different R&D innovation drive, because then we lose out on scale.

So, we do have to find a model that combines decentralization, yet not losing out on scale. Of the scale that should give us competitive advantage.

And I believe that one of the strengths of Nestlé is that we found a way of being decentralized, yet at the same time, allowing the scale to play in our favour, through having an aligned R&D, and aligned innovation process, and yet doing through the SBUs, a good coordination of that whole orchestration.

So, that's how it works. So, there is not one answer, because then we have models like Nespresso, where you do have local execution, but there is only one model that is really also the flavours, because that is intrinsic to the model again. So, we are adapting. I do believe that the strength of a company like ours is, that we are able to manage these different models at the same time.

On how far do we drive these shared services or centralizing? We have been, I think, quite pragmatic in our shared service set up as a company. First, we have done it on a regional basis. I remember when I was responsible for Zone Americas, when we set up in Latin America, the shared service centre in Riberão Preto in Brazil. We didn't go and outsource everything, which proved to be a very good strategy, although some services we have outsourced. So we have been very pragmatic.

How far can you drive this? Well, first of all, GLOBE has been an enabler of an amazing amount of fluid centralization without really disturbing the dynamics of the markets. So, GLOBE is a precondition for many initiatives, also, the shared service centre set up that we have. We have a shared service centre set up that is basically managed on a zone level. Yet, at the same time, in the centre we do have certain services that are global. Again, we have gone through in a very pragmatic way, not having one principle overpowering every logic.

How far can we drive this? Well, that depends. Would we bring all the regional shared service centres that we have, we have one in Ukraine. We have one in Poland. Would we bring that to one big shared service centre? I don't believe there is more scale that would be positive, in the sense that when you centralize too much, after a while you get negative scale effects, and that is something that we have to balance out. So, that’s a process, that is a continuous process that we are working on.

Ukraine is something that we started only two years ago. We have seen it working very well. We have one also now in Africa, in Ghana. That is working very well. Should we link it all up in one big, huge one -- I don't think so.

Question on;	**Pricing environment**

Michael Studer, Bank am Bellevue;

I want to talk quickly on the pricing environment, especially given that you've mentioned they're still soft due to consumer sentiment in most of your markets. If I recall correctly, you've taken quite some pricing measures, by the end of last year. So, my question is, how do you see the pricing environment this year?

How do you see your competitors working the landscape currently? Is there still responsible competition, and also maybe the raw materials, which are on the rise, what do you see there as an impact on your margins? What do you see there? Thanks.

Paul Bulcke ;

Well, on the raw materials, what do we see there? Well, first of all, I am always saying you have to see underlying trends, and then the nervousness. And what we see is that, as projected, the second half of this year should see a little bit of lighter pressure on our cost of goods sold, although, then you see again, how volatile things are when you see the grain and the corn prices, which is having an effect, definitely on our PetCare, and on other businesses, too.

That is a challenge, also the nicety about managing a business. You have to be alert permanently, and adapt specifically. Now, pricing, we have done pricing, and we do see that fading out a little bit, although, there's still pricing foreseen for the second part of the year.

Again, category by category, it's different dynamics. What we see too is that competition, because of the depressed environment, pricing is something that is not really in. Also, retailers are really tough in accepting pricing. And that's why we try to be one of the first to do pricing, in spite of having some short-term competitive disadvantage, when you hang in if higher price competition doesn't fall. It's much harder when you're number ten knocking on the door of a retailer than when you're number one. That's why we have been quite early on in pricing. You may remember in 2007, 2008, we were very early in pricing. That has helped us through the first shock, I would say, in 2007, 2008. And that gives a different dynamics of the different competitive landscape, or competitors. That they do have different timings of pricing. That's how we see it.

So, second half, a little bit less pressure on raw material prices. Longer term, though, I still see that raw material prices in general are going up, especially the agricultural products. I do see that positively. When you see how depressed the prices were before, these were not sustainable, quantities didn't come. If you want to have the quality ingredients and the quantities for food safety, for food security, we're going to need better prices than we have now.

Michael Studer, Bank am Bellevue;

But do I then understand you correctly that you would be willing to give up some organic growth in the second half in order to come through with healthy pricing.

Paul Bulcke;

Again, category by category, you have to see it differently. We don't define pricing in the centre, on the lake of Geneva. That is done market by market, and we see the competitive landscape, too, there. And we're not going to price ourselves out of the market if there is a category where we are engaged and we're not going to give up positions that are pretty hard to gain back.

Yet, at the same time, the substance of the business is very important to us too. So, we're not going to fight or wait forever to do the right pricing. So, that's a combination of things. And each market has to have their objectives. They do have their good insight of the raw material costs that they have specifically in their mix, and they do have the better view on their competitive landscape. So, that's where pricing is done.

Questions on;	**Powdered milk in Latin America** **Infant Nutrition in China** **Single serve brewed coffee in USA**

Pablo Zuanic, Liberum Capital;

Thanks. Paul, three brief questions. Number one, when I think of Latin America, about a third of your sales there come from ambient powdered milk, NIDO, probably a high percentage of earnings. But as economies develop, and as logistics develop, people move up to Tetra pack and to fluid milk, which are commodities, lower-margin products. How do you deal with that? And is that a phenomenon you may see now in emerging markets?

The second question, I think I understand how great a company Nestlé is, but if I can make an observation, you're number 1 globally in baby Nutrition, very dominant in Latin America, yet you are not in China in Infant Nutrition, which is the largest, fastest growing market in the world. I mean, how did that happen, or is it something that we just take as things that happen?

And the third and last question, Starbucks launching Verissimo selling an espresso at $1 cup to me seems very expensive compared to an espresso at EUR0.35. So, in my opinion clearly, they are going after the brewed single-serve Coffee market in the US, where Dolce Gusto has not really made an impact. Would you have any other plan B or plan C for the US market in terms of single-serve brewed Coffee, given that espresso is so small there?

Paul Bulcke;

The first question, and you used Latin America, where NIDO is very strong. When I started in Nestlé, that's quite a long time ago, 30 years, 32 years, I went to Peru, and the first thing they told me is that NIDO is a full-cream milk powder, and that's actually fading into a commodity and that's a category that we're going to have to think of slowing down, and getting smaller. And I must say every since, NIDO has been growing and is one of the major brands we have, and is still growing very fast.

So, you're right that also this whole movement towards liquid, you had a liquid already, in Peru too and Tetra. And we are engaged there to a certain level, because we still want to have our brands and categories, and conditions in product categories where we can make money. So NIDO, as it is, in powder has really gained in importance thanks to a lot of innovation, and has maintained its relevance in the markets, and in many other new markets where we now phasing in milk powders, added-value milk powders, growing-up milk powders, et cetera.

Fluid we have an interest in fluid. You see it here in Yinlu, you see aseptic. We are in fluid, quite heavily involved. But we want to only be involved with added-value, where we can also make margin, and that's where we extend brands into different categories, like liquid, only when there is a margin. You'll see in Brazil, we have engaged in liquid. We have engaged in liquid, also, in North America, USA, through Coffee-Mate Liquid. We have aseptic in Anderson. We are engaging in China. And actually, the whole Zone AOA, all the liquid we have, Milo liquid. We have Nesquik liquid. We have now here the brands in China. These are very big categories where we're engaged. Now, in full-cream milk liquid, we don't see that we can make a meaningful differentiation there. So, that's why we don't engage in these dimensions very strongly.

Now, in Nutrition. You say in Infant Nutrition, we are a world leader in that, we're known for that, et cetera. In China, we are smaller. First of all, you have very good local competition and also imported competition. Also, we were quite engaged, but it's very strange. Normally, we are very proud to be local producers, and we are local producers of our infant Nutrition here. That went against us when the melamine crisis arose, and all this milk, locally produced was not seen as very positive. So, we suffered from that. That's the way it is. We're gaining back these market shares now very strongly.

And that's, I think, a little bit the dynamics of a company like ours that, if we want to be engaged in all battles in all fronts, maybe we would be not really focused enough .Now, we are [focused], and you know there are certain things that are still depending on decisions and solutions that would help us to build a very strong base, for Nestlé, in Infant Nutrition.

Because see also what we have the growing-up milks, we're very strong involved there too. And that is going very well for us too. So, you have to see it in the context of these two categories together -- Infant milks, and also Growing-up milks.

And then on the Starbucks and USA, how we are engaged. Well, first of all, again, in USA, Dolce Gusto is just starting. We had a first attempt we are setting that up for the future. I believe Dolce Gusto has a very good future in USA, because it's a retail-based system that is bringing really that dimension that the USA, or the Americans like, which is a longer coffee with milk, and that is something Dolce Gusto does.

Nespresso is another kind of coffee that is not directly linked to the style or the way a North American is drinking coffee. Yet, at the same time, Nespresso is doing very well for us in the United States, still on a relatively small -- relatively, because it's a huge market, but on a small base, it's growing, 40%, 50% this year. So, if we can continue doing that, that's going to be a relevant offering there. That's a system that is definitely to be part of [the solution].

Now, there is quite a lot of competition in the United States. The coffee that's made there is different. It's more the longer-brewed coffee, and we're going to adapt our system to that too. Nescafé is already there, for quite a while, with Taster's Choice. Also our out-of-home Coffee systems are doing extremely well, and you may remember that we acquired Vitality, which is an operator that has a very strong foothold, and machine placement. That is a very good marriage now with the new machines that we have, with the new systems, that I just mentioned before, the Milano, the Viaggi and the Alegria that we're going to introduce there. So, that is a very good match that is really going, and getting some traction. And we have very good growth figures there in out-of-home Coffee in the United States.

So, again, a lot of competition, but we have quite a few answers there too, and many of them are doing very well. So, we are going to have give it time and maintain the focus.

Question on;	**Use of ideas from emerging markets**

Jamie Isenwater, Deutsche Bank;

I have just one question. You showed a few products that have been created in emerging markets then brought to developed markets. Can you give us an idea of what else we can learn from emerging markets more generally that can be actually utilized in some of the tougher markets in the world?

Paul Bulcke;

One of the first things that comes from the emerging markets is the positive spirit. Really, I mean it. I travel a lot, and I like to travel because it recharges your batteries and sometimes you go back to Europe, and you start to be depressed after awhile, positive spirit is a good thing. So what we try to do too is to have more of the managers of the emerging markets going to Europe, and we have actually quite a few of them already in the centre, so that's a good thing.

With the PPP, we said the reverse innovation. The PPP is definitely something that is reverse innovation, not because we are segmenting, we have been segmenting in the developed world for a long time, but this holistic way of going about certain segments of society. In Europe, for example, 15% of the society, of the population, is actually emerging consumer, or some of those are consumers that are down trading. So, that's definitely something, and you mentioned it before, where we are using arguments from the emerging markets to go in there.

But we have quite a few products, too, if you see products like Munch in India or here [China] the little biscuit with the shark. These are products that we are bringing back into parts of Europe, and also USA.

In the USA, we have the Hispanic initiative, which is gearing to the Hispanic part of society, which is 50 million, 60 million people, gearing a whole product portfolio towards that part of the USA. That is something like $400 million already in the sales figures of the Nestlé USA. That is also bringing quite a lot of products that we have in Latin America into North America.

So, there's many initiatives, but I believe that having a positive spirit is not a bad thing that we can bring from the emerging markets.

Wan Ling Martello;

I think it's not only just products and positive energy, but Roland Decorvet talked about Yinlu, for instance, the large-scale aseptic production. So, it's not just products, but technologies and processes.

Question on;	**Senior management remuneration**

James Edwardes Jones, RBC Capital Markets;

I guess it's inevitable that the organization is getting ever more complicated as it gets ever bigger. And we've heard a bit about Nestlé in the markets this morning, how responsibilities become slightly blurred in certain circumstance. Also, about the shared service centres where there's a significant element of a market's operations that are outside its direct control. How's senior management's remuneration evolved to reflect this?

Paul Bulcke;

How is the general management, what?

James Edwardes Jones, RBC Capital Markets;

Compensation of senior management, because it's not as simple any more as saying I guess, there's one measure that you're going to be paid on. It's getting ever more complicated.

Paul Bulcke;

That's a very good question, because that is what we are priding ourselves on that is working quite well for Nestlé, even if it is not so clear for the outside. NIM, Nestlé in the Market, is maintaining the presence of our company, so that it comes together, in spite of having different reporting lines.

A market head for Nestlé has quite an important part of the business reporting directly into him, yet at the same time, he is the ultimate caretaker of the company and its image and name in a certain geography, or certain country.

Nestlé Waters report directly into Paris or a regional structure, yet if something happens with Nestlé Water in the market, there is the market head, normally, who is the ultimate caretaker, who is also taking care of Water. Yet, is that reflected in his bonus or something like that? No, it isn't.
He has a P&L responsibility over the direct reporting dimensions into him. There's certain dimensions that we bring in, like structural costs, that are normally linked with NIM that we can bring in there.

We have certain gatekeepers that we can bring indirectly. But, I don't believe, and it is not part of our culture as a company that we have to have people only reacting, only acting, when he sees a bonus payout for it. And I believe this is part of Nestlé culture. We have been raised in a culture that is not linked with -- I only respond to reflections that are linked with a bonus payout. We speak a lot about culture, and that is part of that culture.

It is also part of culture that you have people sitting in the NIM structure that are not reporting into a market head, that are responding to the market head when it comes over the interest of Nestlé globally. Although, he reports to somebody else. That's also part of culture. That's why we talk about leadership. It is not only managers, but we need leaders to manage that dimension, and you have shared service in there.

It's like somebody who would say -- well, how can you make me responsible for the bottom line if I don't have every line of the P&L reporting into me. Well, that's not how we work. Because that doesn't work either for the top line, because you don't manage your clients or your customers.

So, that's how it works. Nestlé in the Market, where we pull in all the dimensions of Nestlé in a certain country, there is one market head that has part of that reality reporting directly into him, and he's P&L responsible, part of that reality. But part of his job is also to be the glue that brings the Nestlé presence and the market altogether. And he is the ultimate caretaker of our company. That's how NIM works.

Wan Ling Martello;

I will give you my perspective as a new person, because when you commented about the complexity of our organization, I see my colleagues here in the front row all smiling. I have to say when I first came in, I thought -- holy cow -- you've got the market heads, you've got the zones, then the regionally managed business, the globally managed business.

But, I go back to what I said at the webcast. It's been said that great global companies do three things really well. First, they understand the local consumer, and the fact that we're so -- we're decentralized like Paul said earlier, allows our market heads, and allows the teams in the markets to do what's right for the local consumer. So then, you tie it back to the compensation, so Roland Decorvet is responsible for the performance of the China business, your Chinese business.

And then we talk about the second thing that great global companies do well is leveraging scale. And so, to the extent that we have Water business, which is globally run. You've got PetCare, which is regionally run. We've got Nespresso. We have shared services. We've got GLOBE that allows us to leverage scale.

And the third element, which is transfer know-how effectively. We've got our SBUs, who are in charge of categories. So, whether it's a Coffee category, whether it's the ice cream category -- now their compensation, an element of it, would be return on investment, because they have a big say on where should CapEx go. And so, they have an element which is ROI. And so, if you think about how we're organized, yes, on a sort of like on first blush, it's complicated. But it sings, and it works beautifully. It contributes of the three elements I talk about all the time with what makes global companies great. Hopefully, that helps.

Question on;	Controlling third-party distribution

Eddy Hargreaves, **Canaccord Genuity;**

We heard this morning that you use pretty much exclusively third-party distribution in China. I imagine we'll hear that it's the same in India, Africa this afternoon. I wonder if we could dig a bit more into that, because it's clearly a significant cost for you. We can see broadly what you do. We can see broadly what the retailers do. But the bit in the middle is more complex, and less clear. I'm thinking also your comments about food safety being of great importance. How do you avoid value leakage through your distribution system? How do you control the risks? And more broadly, what are trends in that distribution part of the value chain at the moment? Is there consolidation going on? Are there opportunities to improve margin in that area? May be a question for Nandu, actually thinking about it.

Wan Ling Martello;

Yes, Paul, it was a presentation earlier that they touch on third-party distribution. Paul didn't have the benefit of this morning, he was not here. So, Nandu or Roland, do you want to answer the question?

Nandu Nandkishore*, *Executive Vice President, Zone AOA, Nestlé S.A. ;

Yes. Look, third-party tertiary distribution to the small mom-and-pop outlets, and the so-called sari-sari stores requires a lot of intimate knowledge of local routes, local trading terms, and local credit worthiness of the parties concerned. So, this is best performed by somebody who is rooted locally and understand the local environment, which normally is a local distributor.

Therefore we do work with local distributors to cover these small outlets, and even to extend credit to them. What we do is, we then apply NCE (Nestlé Continuous Excellence) -- so NCE works not only in our value chain, we've also NCE into the operations of the distributor to create transparency for the distributor, and for us, and thereby, optimize the whole chain.

So, we control very tightly the amount of stock, and the cost, and the cost to serve, through the distributor, these small retail outlets to make sure that it is a viable business model for him, at the same time continues to be remunerative for Nestlé. And this is a practice which we are rolling out across the world, across the zone, and this is something we actually see as a competitive advantage for Nestlé, that we understand how to work with these small distributors to really tap into the small mom-and-pop stores, and sari-sari stores.
This is a skill very few other multi-nationals have. A lot of local companies do understand this, but they don't bring the same NCE discipline that we bring, to optimize this process and value chain.

Paul Bulcke;

Sorry, apparently you spoke about this during this morning, but that's why I didn't get the question directly. But, I was a few weeks ago in Columbia, for example, where we were close to our distributors. People don't have to be on your payroll. You have these distributors who do know the region.

What we do with these distributors, though, we call marketing cycling. So, we have people going there talking to the sales people of these distributors, and giving the priorities, or the new innovations or the new products we have, et cetera. So, they work closely with them, and also checking on the stores.
So, we don't have to have the sales people, but we do have supervisors going with these distributors and do spot checks to see that our products, they are in the stores with the quality and the freshness that we need. So, what would be wrong is having these distributors totally left alone, and then food security and safety would be at risk. Or shelf life, and all that.

So, we do have direct involvement with these distributors, and that's where, then, this Nestlé Continues Excellence starts to play then, where we work together with them to see how we can do that more effectively and efficiently. But being close to these distributors, it would be wrong to really have, what we call this major wholesalers, where you're just sell in, and that's that. And that would be a push model, and we don't like that. We'd rather go to your pull model, where we really drive demand, rather than pushing into their retail mom-and-pop stores.

Questions on;	**Cost effectiveness of digital marketing** **PetCare strategy in emerging markets**

Eileen Khoo, Morgan Stanley;

I've got two questions. The first one is actually on marketing. You mentioned earlier about AOA having the biggest internet population, and many of your competitors have actually talked about increasing digital marketing, and how that is actually is more cost efficient. And could you comment on that from your perspective? Are you seeing that as well in terms of it being better in terms of cost effectiveness?

And then the second question was actually on PetCare. This is one of your biggest categories, and you are the global leader in PetCare, yet you're hardly in emerging markets with -- Wan Ling mentioned that earlier. So, I was wondering, what's your strategy here to catch up with Mars, who seem to be significantly ahead of you in emerging markets? Would you say that it's more feasible to have your fair share of this market at 30%, which is where your US share is? Thanks.

Paul Bulcke;

Well, actually we spoke about a reverse innovation -- internet is one of these also that the emerging markets, or the new world, is faster, and is actually jumping stages ahead. Like the cell phone for example, in Latin America. Cell phones were faster a part of daily life, than in Europe.

We have actually defined embracing digital as one of the priorities as a company, digital in two dimensions. First of all, digital social media, and how social media allows you to leverage better your investment in connection with the consumer. Then also, business-to-business, which is the digital business models that we have already quite a lot of via internet. If you think about Nespresso and others that are directly trading contacts with consumers in the commercial dimension.

We have set up a digital acceleration team in Switzerland to embrace this whole dimension about digital and social media. And that is manned with people out of the markets, and it's quite amazing to see that many of the people arming this acceleration team are coming from the emerging markets. There's fifteen, twenty people just coming in for nine months to arm that, to learn and to give their experience to Nestlé globally, as it is digitally [linked, and all that.

So, there again, we are leveraging quite a lot of what's happening in the emerging markets on the digital level. If you think about Africa, for example, where you have, six, seven hundred million cell phones already, but not only as a phone, but also as platform of communication and doing business. And that is definitely something that is going to drive and condition our presence -- and not only emerging market presence, but also the developed markets presence. And so, that's wholly engaged, and that is something that we have defined as one of the priority areas, to really be leading in e-business and also social media.

Then on the PetCare, you speak of emerging markets. Well, first of all, the emerging markets, you speak about AOA, but in Latin America, for example, we're gaining dramatically market shares there. We have brought in seven, eight years ago, a streamlining of portfolios. We have also streamlined our branding. We have streamlined our industrial set up, and that is now gaining traction, and is really giving us a lot of market share gains.

Same thing is going to happen in AOA. We were just speaking with Nandu about how we're going to organize PetCare. And you're right to say that in certain areas, we have been focusing in a very narrow dimension of added value, premium, super-premium. And I think it's the right thing to do. It's not about going on the lower end. That is what we did in Latin America at the beginning, and we went out of it.

So, the same thing, we are focused very much on the high end, and that's why we may be apparently lagging in market shares, but definitely longer term, that is the right place to be. That's where we're engaging. That's going to take some time. We're investing in production capabilities now. We're going to accelerate that. It's a relatively small market, although we do see growth potential there. But we want to go to the higher end, the added value part of this market, and that's where, I believe, a company like ours with our brands Purina, Friskies, and other brands, should be playing. But that's a little bit longer term.

Wan Ling Martello;

We're also doing very well in central and Eastern Europe from a PetCare standpoint. And from a spending, digital marketing, we are increasing every year. You're seeing the shift.

Question on;	**Capital allocation post CapEx**

Unidentified;

My question in on capital allocation for Paul. As an institution, you've been clear on CapEx. If you look at your free cash flow post CapEx, over the next three to four years, how will you prioritize between reducing debt, big M&A, raising dividends, and initiating a buyback? Thank you.

Paul Bulcke;

CapEx is important. After CapEx I think a consistent dividend policy is not a bad thing to have. We are quite high on that, but still I would keep consistency there over time. And then you see M&A, when there are opportunities of interesting acquisitions, and we speak about bolt-ons, I would go for that too, because it helps to accelerate our presence in certain parts of the world. Where we can make meaningful acquisitions which means it should fit in our strategy. It should be also be an economical fit, and it should have a cultural fit, because I do see also very much value in having companies blending together that do share the same principles. But that is on an opportunistic basis. I believe that we have shown over time that we tried to have a discipline there. And then, debt reduction is also part of it, although that is resulting from our cash flow we generate year by year. And you see, and you have the projection, is a debt reduction is definitely part of that, also with certainty, with the deals still pending.

Questions on;	**Nestlé Health Sciences** **Nestlé Nutrition**

Warren Ackerman, SG Corporate and Investment Banking;

Hi, Paul. It's been a year now since you set up Nestlé Health Sciences as a separate division within the Nestlé Group. Just wondering how you think the unit has performed since you separated the Nestlé Health Sciences, and what was your outlook for the Nestlé Health Science unit in the next three to five years.

And secondly, when I look at the rest of the Nutrition portfolio, obviously, Infant Nutrition has been bolstered by the Pfizer acquisition. But if I look, say, at Performance Nutrition, PowerBar, and if I look at, say, weight management, it looks relatively smaller. Just wondering what your thoughts are on the other parts of the Nutrition unit outside of the Infant Nutrition business.

Paul Bulcke;

Well, first of all, we are now two years almost with Nestlé Health Science, so your first question was how is it going? First, having set up Nestlé Health Science, and having it structurally at arm length, I think was right decision definitely. Why? Because the whole dynamics, the whole business model, the whole philosophy of going about these opportunities is quite different from what we're doing here in the Nestlé classical way. And that's why we set it up.

We argued to say -- there's an opportunity in the making there, somewhere between Food and Beverage, and Pharma, that is linked with personalized Nutritional solutions for specific medical conditions. That's how we define it. We had already quite a substantial business, $1.5 billion, that came through our own businesses with Nutren and other brands that we had, and also certain acquisitions that we did over the last years.

If we would have kept that in the Nestlé organization just like that, I don't believe this would have got the attention we have been able to give through the Nestlé Health Science set up today. Let me explain why. Well, first of all, in the last years, we have really been aligning the whole company very strongly behind our agenda, which is Nutrition, Health, and Wellness, and defining what it meant to us, and how we translate that into portfolio innovation -- renovation, the whole R&D set up, was focused to driving Nutritional arguments in the Food and Beverage business. We call it sixty forty plus, etc.

That combined with the turbulences and the crisis of the last years has created a lot of energy going into how are we managing these turbulences, like raw material prices, the crisis in certain parts of the world, low consumer confidence, more intensity in competition. How we are accelerating and engaging in the developing world and all that.

All that attention would not have been able to be divided toward something that is in the making, that is a little bit further out). I do believe that was right set up to really create something that has its own focus, its own dynamics, free of all the other pressures. That is why we have set up Nestlé Health Science as we have set it up. We have also added to that the institute. Why? Again, because the size that you need to drive this agenda is quite different from the texturisation, flavorisation, and also fortification of the classical Food and Beverage.

That's why we have set up that institute. That is now going, in a few weeks time we're going to do an official inauguration that institute. So it has been setting up. It has been manned, and at the same time, we have been engaging, through M&A, with certain accelerating engagements, like Prometheus in the United States, that allows us to do diagnosis on the gastrointestinal conditions. Why? Because if you want to go personalized, you need these diagnosis capabilities. We have been engaging with Vitaflo, a specific business that goes after a specific metabolic problems.

So, we are setting up this whole thing. And in the meantime, we're driving the $1.5 billion business that we have already in our hands, showing good growth. We have proved, and streamlined to portfolios, because that came from different angles, that is now showing traction, and is showing very good growth. In many models, we are engaging, and starting to build the basis of engaging in many parts of the world. So, this is just starting. So, that's the first question you had there.

Then you said Nestlé Nutrition, or the Nutrition business as it was, and it had Healthcare Nutrition that was made into Nestlé Health Science. It is Infant Nutrition, and it has in these other two dimensions, which are Performance Nutrition, and also Weight management. The Performance Nutrition is the product, PowerBar, that was basically American based with some activities in Europe. We have refocused really on the high-performance athletes, because we explored the dimension of going more open and using PowerBar more broadly like a Nutritional count line, and it doesn't work. So, we have retrenched there and focused on the high-performance athletes with PowerBar brand, which was basically what the brand was made for. And that is now showing again, good traction.

So, we went through a learning curve and actually we are back to where we should be with our real focus and getting traction. That traction is now going to be rolled out also in Europe. So, we have profiled the portfolio there in the right way, and I do really believe this, although smaller business, you know it is smaller $250 million, $300 million, but with a good future.

We have commented already on Jenny Craig, which is the weight management system. That, we have to work on this. This whole market in the United States, we had actually two head winds there. First of all, the model that was up for renewal a bit. We were pushing the same button there that has been successful in the past. That was the first thing, and second was that competition was more intense, and third was actually the whole economic environment.

If you think that weight management is ‘about me’ and women put themselves as the lowest priority in a crisis. Actually, we have tested that out in North America in crisis time, it's my baby first, then my pet, then my children, then my husband, then me. That sounds very simplistic, but basically that's how it is. And Jenny Craig was ‘about me’. So that was last priority. The whole weight management category now, competition included, is not growing. It is having problems with the low consumer confidence, and the low perceived spending power. But, Jenny Craig is a very good platform that stands for what we want to be in the Nestlé Nutrition, Health, and Wellness. We are overhauling the whole business model to see how we can expand and grow the arguments, and not only going weight management. But that's something we're working on that we have to roll out later. So, that is an issue we have.

Question on;	**Employee loyalty in emerging markets**

Patrik Schwendimann, Zuercher Kantonalbank;

One strength of Nestlé, I guess, is to be loyalty of your people. So, how do you see the risk that in some emerging markets, the loyalty of employees is lower? Could change your Nestlé -- your typical Nestlé culture?

Paul Bulcke;

We're indeed very proud of our people, and the loyalty they show, and we have been saying that as one of our strengths as a company is that we have people who stay with the company, motivated for a long time. Again, I can refer to when I started in Latin America at the time, we were also seen as a very good extension of university, very good on your curriculum, and we had quite a high reputation at that time already.

And that's a role that a company has to play. It is for us to retain the good elements, and that is a challenge, permanently. But I believe the best way to retain people is, firstly to allow them perspective, and to be open on that. But, secondly, also to be a successful company. So, that are two things that we can condition.

What we cannot condition is that some people do have individual ambitions, and it is clear that in youth and in the new world, people are more nervous sometimes, and do have lots of opportunities, but it's for us to have the right leaders, and the right programs, and the right success so that we can keep them.

Now, over the last so many years, the average service of people retiring from Nestlé, going into retirement is twenty-six years, and has stayed stable. So, in that sense, I would say we have been able to retain our people, at least in the statistics and the averages but sometimes, we do lose good people. To a certain extent it is linked with creating shared value, and we often say our link with society is for our activity to create a positive contribution to the society we operate in.

Well, in some way a company like ours, although I don't like to see it happen, but it creates some shared value by training quite a few people in the right way. I've see it happening in Latin America. I've seen colleagues going, and many of them wanting to come back then later on, and that's how it goes. For us to really have an environment, a work environment, a motivation, career planning that is interesting enough so that they stay.

Questions on,	**Return to growth in US Frozen** **Categories that need renewed focus**

Lee Murdock, Barclays;

You touched on US frozen earlier. I'm just wondering, it's still, obviously, has been for a while a tough category, and you've seen some competitors scale back. I'm just wondering what you think you can do differently to sort of bring that category back to growth?

And then, slightly separately, you talk about PetCare, maybe being under indexed in LatAm, and baby food you were under indexed in China until (inaudible). Is there any other categories where you think you sort of need to have a renewed focus, and a ramp up in any particular geography?

Paul Bulcke;

Look, frozen in USA. The whole category is down to start with, so it's the whole category is suffering more -- you have categories that suffer more from a downturn, or low consumer confidence than others. And frozen is one of these categories that I believe that went into an home deal mode, a promotional mode way too heavy, and we were involved in that too.

So, we are backing off there a little bit on deals. What happens when you go driving a category that starts to be promotional is basically that you dry up innovation, you dry up arguments, you dry up really being relevant to consumers, and that is what we feel has happened.

And you may remember, Lean Cuisine was a huge success a few years ago, and where is the relevance of Lean Cuisine if price is the only driver. And don't say that our brands are the only ones, the whole category went into that mode. I believe that there meaningful

innovation, and not hyperventilation in innovation, but really meaningful innovation to US consumer, creating value to the consumer is something we have to do.
The same thing happened with Hot Pockets, for example, where something like five years ago, or six years ago, we went into promotional mode there, instead of creating and being relevant to consumers. We have reversed that, brought in new ideas, better quality, and it has been growing again. And that is something we have to do there, definitely, in this whole frozen category, and that's why we have now two years or one-and-a-half years ago put in new leadership there, in Solon, to drive that. We have intensified R&D, and these are efforts that don't show up yet, but definitely the pipeline is there, and I'm very upbeat and positive for the future there.

You say PetCare category has got a new focus in AOA. I used the example of Latin America. While in Latin America, we had in PetCare, a complex set up, a portfolio of PetCare products, in many markets that came through some acquisitions that had different impacts in different markets. PetCare, I believe, has to be driven more regionally.

And so, what we have to have is a very strong regional strategy. That is what we have in Latin America. North America is driving very well. We've finally got our lead through innovation, adding value, and we're gaining market share, year after year. Latin America lacked that clear strategy, and then a very disciplined execution behind that. That is something that we know for AOA too. The impact of that is going to be in one or two or three year's time. That needs time to get traction, but it's a journey, but a journey starting now.

Is that something we feel is applicable to other businesses? I believe that there are certain innovations that we should drive stronger regionally, and actually, that is happening, for example, with Dolce Gusto. You remember in Europe that was a platform, that the strength and the success of Dolce Gusto was strong. Leadership and good execution by the markets, over a fairly narrow time frame. The same is happening here, in AOA now. In North America, we're doing the same things.

So, what I do see more, in answering your question, I see more happening in Nestlé is more discipline with good ideas. If we have good ideas, if we have good new innovation, and we believe this is something that should have traction in many markets, then we're going to have look for the buy in of the markets. Not destroying the decentralization that we're so proud of in the company, but we see it more as local execution, with global inspiration, or regional inspiration.

And R&D is expensive. But I rather have an SBU going after big ideas that are scalable over regions than trying to have and adapt the whole R&D set up for localness only. For example, something that started in Japan was the Nescafé Barista. It's a smaller model, the smallest machine that you can see here outside, which is a very good technological machine which allows a relatively cheap answer of having high-quality Coffee experiences, with foaming milk, et cetera, which is a new footprint of Coffee drinking, right?

Now, that machine was Japan based and locked in. Well, that's a machine that we wanted to roll out over to more markets. Well, there, we're going to take authority in saying -- well, we have to see a program, where in two, three years time, we have so many markets taking it up, because it's such a strong idea.

The same with, for example, our Juicy Chicken, the small plastic bag with some herbs to bake chicken in the oven. Well, that's the same, a very strong idea. Why should we have it in one or two markets and see? We have to force the roll out stronger. So, that's what I call the authority of good ideas.

For the authority, you have to give really support by the Zone heads saying -- we're going to do that. And that's something we have to drive more forcefully than in the past.

Ian Metcalfe, Investor Relations Officer, Nestlé S.A.;

One last question then, and then we'll have to wrap it up in this setting, but you'll have plenty of time in the next settings.

Question on;	**GDP slow down in India and China**

Alex Molloy, Credit Suisse;

A quick question on India and China from a top-down point of view. We've heard some comments, IMF, Forecast, etc. that GDP growth is slowing in both these markets. Could you please comment on relevant is a slowdown in GDP growth for your business?
Are there other top-down metrics that are more relevant, for example, the growth in consumer spending and the different elements that make up that GDP growth? Thank you.

Paul Bulcke;

GDP growth, in general, is a little bit the environment you behave in. It's like a plane when you fly with tail wind you fly faster relative to the ground, than when you fly with head winds. But what I'm always saying is we should have an engine strong enough to compensate for that, so that we can keep the same ground speed.

No, the GDP is not directly linked with the categories we're operating in sometimes. I don't believe that we should justify whatever through GDP alone. First of all, I don't see slowing of the GDP growth in certain parts of the world. I don't say specifically here in China, or it's sometimes not as bad as we would think, because an overheated engine is never good. Although, in China, for whatever it's worth, 6%, 7% growth in China is already a growth on growth. So, it's still more than in other parts of the world.

But our product categories are linked with the consumer spend, which is different from GDP. And then, in customer spend; I do see also the categories we're specifically in, how we can create our own category dynamics in these environments. What we normally say is that we want to grow a few percentage points above GDP in general, but that's, again, a general statement. So, GDP growth is important to us. We don't condition or explain how we are doing only with that, and in the GDP, we should look into the elements of consumer spend, which is sometimes quite different from GDP growth as it is stated officially.

So, I do see the dynamics of the new world is positive. It's underlying strong. So, definitely the Nestlé model, the 5% to 6%, we're not going to condition that with GDP slowing down or going up in certain parts of the world.

Wan Ling Martello;

And Alex, a good example of this is, obviously, what Nestlé has been able to do in Zone Europe, despite a very tough macro-economic environment, given that we have very significant growth platforms, like in Dolce Gusto and PPPs.

So, I think, that was the last question, we now move to the next room for lunch.

Ian Metcalfe;

So, we'll have an hour to break for lunch. Paul, if you'll join us for lunch, that would be very kind. And you'll have an opportunity to network and interact with management again over lunch. So I thank you very much.

End of Q&A Session