2014 FULL YEAR RESULTS
CONFERENCE CALL & PRESS CONFERENCE TRANSCRIPT

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Robin Tickle, Nestlé S.A., Head of Corporate Media Relations

Good morning, ladies and gentlemen. Welcome to our full year results conference here in Vevey. This conference will be held in English, but you can also follow it in French or German using the headsets provided. If you’re, watching the webcast, you can choose the right language by clicking on the respective link on the webcast page.

I take the safe harbour statement as read. Now let’s start. Paul, you have the floor.

Paul Bulcke, Nestlé SA, Chief Executive Officer

Good morning everybody, and also welcome to our 2014 full results conference. First of all, I want to thank you for your interest. I want to also say hello to the people who are following us via the webcast.

With me on the podium, we have Wan Ling Martello, our CFO. In the room, we also have in the first row my colleagues on the executive board, and also Greg Behar, who is leading and heading Nestlé Health Science, and Humberto Antunes, who is heading Nestlé Skin Health. They are here in the room and also available for questions that you may have at the end of our speeches.

You saw we published our results for 2014 a few minutes ago, and I would say they are solid. They are solid in the sense that, first of all, they are delivering on top and bottom lines; and secondly also, they have been built upon delivering over the years, also the last years, and they have been delivered in a soft trading environment. There is enough talk about that in the press. But also, and very importantly, they have outperformed to market. I would say they also show something that I am going to come to later on, which are the intrinsic differentiating strengths of our company. And the first things I want to say there commitment of our people. Everywhere in the world, our people, how they are committed and aligned behind our strategy, are an intrinsic and very strong element of our continued success, I would say.

We have a global footprint. We are truly a global company that has integrated activities in every part of the world, and that is definitely a strength. Our portfolio and our brands, and the complementarity of the different categories we are working in is also very important. What are driving this portfolio are our R&D and our innovation drive. These are four elements that I would say are the base of the success of last year and the years before, and will also be the base for the future. I am going to go into that in a little bit more in detail.

You saw the figures, and I want to ask now Wan Ling to walk us through the details of what is behind these figures. So please, Wan Ling, the floor is yours.
Thank you, Paul. Good morning and good afternoon.

I’d like to start by wishing all my Chinese friends and colleagues a very Happy Chinese New Year, it is today.

Looking back at 2014. It was indeed not an easy year. I have to say that I am proud of the Group’s results.

So let us start by taking a look at our highlights slide.

We had sales totalling over 91bn CHF. Our 2014 organic growth is made up of 2.3% RIG and 2.2% pricing. This is a good performance and represents two things.

First, our ability to sustain growth, like Paul said, year after year in very difficult markets. We focus on the value of our brands. Driving innovation, premiumisation, and engaging effectively with our consumers.

Second, the Group’s ability to offset areas of weaker performance. Areas that we are keenly aware of and are in the process of addressing. Something I will cover more in our Zone review.

In addition, this growth has been delivered while improving our trading operating profit, up 30 basis points in constant currency.

Our operating cash flow of 14.7bn CHF has to be viewed with the comments I made in 2013 as well as 2014. We have had 2 years of remarkably strong performance. So 2014 was again a good year.

Finally, our underlying earnings per share were up 4.4% in constant currencies.

With that in mind, I would like to turn to the details behind our performance starting with our regional growth.

Our regional organic growth, that is our Zone and Globally Managed Businesses together, was 5.4% in the Americas, 1.9% in Europe, and 5.7% in Asia, Oceania and Africa.

Real internal growth was 2.3% in the Americas, 2.4% in Europe and also 2.4% in AOA.

This performance is representative of a whole host of factors affecting our markets around the world. Whether it is the deflation affecting pricing in Europe, a moderate improvement in North America, a more subdued Latin America, or the slowdown we have seen in the Middle East and China affecting AOA in the latter half of the year.
Slide – Developed and Emerging Markets Growth

Looking at our global presence from the Developed and Emerging market perspective:

Emerging markets delivered 8.9% organic growth. Sales totaling 40.2 bn CHF, which is about 44% of our Group. This solid 8.9% growth is slightly below where we were last year. It reflects the challenges we faced in some key emerging markets.

Developed markets delivered 1.1% organic growth. Sustaining a performance that, quite frankly, is very good.

Let’s now turn to our performance from a Zone perspective

Slide – Zone Europe

Beginning with Zone Europe.

We had sales of 15.2 bn CHF, an OG of 1.5% with 2.2% RIG.

I know we have said this before, but the strength of the Zone comes from the innovations and premium products we have brought to the market. This is clearly reflected in market share improvements.

I don’t need to tell you that the trading environment in Europe remains quite intense. With deflationary pressures making it very difficult for pricing and consumer confidence continuing to be fragile.

Having said that, both Western and Eastern Europe continued to grow. PetCare, Nescafé Dolce Gusto and frozen pizza had good performances across the Zone.

In the West, France, Austria and the Netherlands had good growth. All three markets benefiting from Nescafé Dolce Gusto.

In France, Herta in chilled culinary and our Frozen Pizza business and Fresh Up and Buitoni Fiesta varieties both had a good year. We also had a successful launch of Recettes De L’Atelier chocolate tablets, I was afraid that I might mispronounce it so I have show and tell here a very good product and very good chocolate that is doing really well especially in a challenging confectionery category.

It is also worth calling out Spain and Portugal where we saw a recovery. Coffee, particularly Nescafé Dolce Gusto led the growth, no surprise, with frozen Pizza, and Snack Noodles in ambient culinary doing well too.

The Great Britain region, Germany, Italy and Greece remained challenging markets for us.

In Central and Eastern Europe the growth was driven by Russia, although we did see a slight slowdown towards the end of the year. The largest categories, Coffee, Confectionery and Ambient culinary all had very good performances. Nescafé Gold, KitKat and the launch of Papyrus cooking papers being stand out performers.

The Ukraine also delivered good growth despite the challenges that market is facing, driven by confectionery especially KitKat.
Overall, across the Zone, PetCare remains the strongest growth driver. As a category it is one of the best examples where differentiated, value added, premium products can sustain growth in tough market conditions. Some of the strongest performances came from brands like Felix, Purina ONE, Gourmet and our snacks range.

The Zone also continued to invest in the future. A few examples include the expansion of our Nescafé Dolce Gusto factory in Tutbury, UK. A capsule factory in Germany and a PetCare factory in Poland.

The Zone’s trading operating profit margin was 15.3%, up 30 basis points. This reflected the Zone’s ongoing efficiencies and a general reduction in structural costs.

Slide – Zone Americas

Looking now at Zone Americas.

The Zone achieved 5% organic growth with 1.1% RIG.

Starting with some of the macro-environment dynamics for the Zone. It is fair to say that the various indicators do show an improvement in consumer sentiment in North America towards the end of 2014. In addition, the lower oil prices may help the consumers. We will have to see how this plays out in 2015, and how any improvement actually translates into the F&B sector. In comparison, Latin America’s economic environment continues to slow down.

Now looking at our performance. In North America our growth was slow. We had relatively good performances in PetCare, coffee creamers and super-premium ice cream. This growth was offset by the continuing contraction of the frozen category and further declines in premium ice cream.

I do realise that we have been speaking about the issues in the U.S. frozen food category for some time. For those of you who have seen what we presented at our Investor Seminar in Boston a few months ago, what we discussed there remains relevant.

Building on that, I’d like to share with you some more specificity of the plans we discussed in Boston, particularly for Lean Cuisine. We are systematically changing all the elements.

We are improving the segmentation of the ranges with new consumption occasions, like snacking.

We are making the portfolio more relevant in reflecting the needs and wants of our consumers – more natural, organic, gluten free, more protein.

We are fully embracing digital across our communications.

And importantly, the changes we have been working on for several months will make our Nutrition, Health and Wellness promise NHW consumer relevant. Producing as fresh and natural as is possible and keeping the recipes as simple as possible.

Now, of course with this re-launch comes with investment. Both in our operations and particularly in consumer marketing spend.

Let me be clear. There is a lot of work to be done here. Our expectations are that we should see some recovery over the course of 2015.
In Frozen pizza, the category dynamics, in addition to our pricing, led to a disappointing slowdown. This was despite the innovations we brought to the market. Our California Pizza Kitchen brand did relatively well, particularly with the Crispy Thin Crust.

Looking at Ice cream’s performance, the premium segment remained under pressure. I can tell you, though, that the super premium segment did well with Häagen Dazs Gelato. Our snacks business, that includes Drumstick and our Outshine bars, recovered nicely also.

In Confectionery the growth had a slow start, due to the tough comparisons and general trading conditions. The ongoing successful rollout of Butterfinger Peanut Butter Cups continued to be one of the key drivers of growth.

Coffeemate maintained its growth momentum, helped largely by seasonal flavour innovation. Natural Bliss, our all natural dairy based creamer had another good year and remains a platform for future growth. We also had a successful launch of ‘Coffeemate to go’ concentrated creamer, in handy pocket sized bottles.

Innovation also ensured the PetCare business in North America continued to grow well. Dog Chow, Pro Plan and LightWeight cat litter were some of the highlights. The brand Beyond had an important launch in the fast growing Natural segment.

Now, moving on to Latin America there was good organic growth helped by pricing that’s reflective of inflationary pressure. Consumer sentiment varied across the region and yet most markets did well.

All of Nestlé Brazil’s categories grew. Double digit growth in Coffee, largely thanks to Nescafé Dolce Gusto. Ninho in growing-up milks, KitKat in Confectionery, Nesfit in biscuits and Nescau in cocoa and malt beverages also made very strong contributions to the market’s performance.

In Mexico the changes in fiscal legislation did affect consumer sentiment. Nido, Nescafé 3 in 1 mixes, Nescafé Dolce Gusto, and Carnation were some of the biggest growth drivers.

Across the Latin American region PetCare delivered a broad based growth. It is now a meaningful sized business for us in the region. Dog Chow and Pro Plan were again the main drivers of growth. We also had a successful launch of our Revena natural dog food in the specialist channel in Brazil.

In terms of trading operating profit, despite higher input costs, the Zone’s margin improved by 60 basis points to 18.8%. This improvement was thanks to many factors. Lower restructuring costs, the non-recurrence of the Waggin’ Train withdrawal in 2013 (if you recall), ongoing operational and structural efficiency gains, and pricing. All together these offset input cost increases.

Slide – Zone Asia, Oceania, & Africa

Moving on to Zone Asia, Oceania and Africa.

At the 9 months we talked about a slowdown in AOA compared to where we were at half year.
Well, it is clear, that with 2.6% organic growth for 2014, all driven by pricing, the Zone has faced more challenges as we closed the year.

We had particularly weak performances in China and Oceania. There was also a slower performance from a high level of growth last year in the Middle East.

We did however see good growth in many emerging markets. This includes the Philippines, South Asia, the Indochina region, Turkey and Africa.

As we have mentioned before, China has had some specific challenges. Let me share a little more colour as to what is happening there beyond the macro factors that others have talked about. There are important differences between the performances of our categories.

Please bear in mind that we are only looking at our Zone businesses here. Our globally managed businesses, which are Infant Nutrition, Nestlé Waters and Nestlé Professional, all had solid results in China in 2014.

Our largest category in China in F&B is Ambient Dairy. Yinlu had a tough year. We significantly reduced the level of stock in the trade to ensure freshness on shelf. As you can imagine, in an intensely competitive market this had an impact on growth, especially with peanut milk. In contrast, our congee product had a resilient performance. Our portfolio of premium senior milk powders also continues to do well, catering to those consumers looking for products that help bone and heart health.

Ambient culinary in China grew despite the tough comparisons in 2013. The Totole brand again delivered a strong performance.

In Coffee, our ready-to-drink Nescafé SmoovLatté also finished the year well despite tough comparisons last year. For soluble coffee the category growth is slower. We do remain the largest player in soluble coffee in China. The reformulations of Nescafé, such as an extended Café-style Nescafé collection, should stimulate the category.

Now moving on to confectionery in 2014 we saw a declining Chinese wafer category compounded by our destocking and some pricing towards the end of the year. As we have mentioned before, the reduction in gifting in China had an impact on Hsu Fu Chi. We are continuing to move our portfolio in line with the changing preferences of the Chinese consumers and driving more of the non-seasonal business.

Ice cream closed the year in positive territory in China. Albeit at a slightly slower rate than last year.

As we have highlighted before, the softening we have seen in China in food and beverage is not yet showing signs of real improvement. During 2015 we will continue to drive changes in our portfolio relevant to the needs of the consumer. This is not something that will happen overnight. However, the long-term prospects for our businesses in China remain positive. Especially given the demographics, the growing urban population, and the products and brands in our portfolio and pipeline.

Oceania’s challenges are a little different in the form of a very difficult trading environment. We continue to develop new trade channels and accelerated the roll-out of innovations. The best example being Nescafé Dolce Gusto that continued to do very well.
Japan benefitted from the launch of premium KitKat via the Chocolatory boutique concept and the ongoing roll-out of Nescafé with microgrinds. I’m very proud of the growth we have seen in Japan, and it is a testament to the ingenuity and passion of my colleagues in Japan.

Finally for Zone AOA, the trading operating profit margin was 18.7%, down 20 basis points. This was mainly due to various trading items including restructuring. While increases in input costs, largely caused by depreciation in local currencies, were offset by pricing and efficiencies.

### Slide – Nestlé Waters

Moving now to our Globally Managed Businesses.

First is Nestlé Waters. Healthy hydration.

Our business has improved steadily over the last years by focusing on valuing up the portfolio. Yes, the category growth has helped, especially in North America and Emerging markets. But it is our drive to continuously improve our structural costs by leveraging our growth that has had the greater effect.

For 2014 Nestlé Waters had 5.4% organic growth with 6.3% RIG. The growth was broad based, both in terms of geography and our portfolio and benefitted from the global category growth.

In the developed markets pricing remained difficult, no surprise, and our largest market, the U.S., remains highly competitive.

Across the emerging markets the double digit growth rate was sustained with a very strong RIG contribution.

Nestlé Pure Life continued to be a growth engine, particularly in the Emerging markets but also in North America and the UK.

Our strong local brands maintained their momentum and delivered good growth. Highlights were Buxton in the UK, Erikli in Turkey and La Vie in Vietnam, all with double digit growth.

The premium international brands Perrier and S.Pellegrino had a very good year clearly demonstrating our ability to drive value in this category.

The trading operating profit margin was 9.7%, up 50 basis points, mainly driven by leveraging solid RIG on the back of contained structural costs. Lower input costs were partly offset by higher distribution costs.

### Slide – Nestlé Nutrition

Moving on to Nestlé Nutrition, with 7.7% organic growth and 3.6% RIG. A strong result given the tough comparisons of 2013.

From a geographic perspective there was double digit growth in AOA despite disruptions in many markets due to political unrest. Latin America also had a good year with many markets contributing to a solid growth rate. North America and Europe were more challenging resulting in relatively flat growth.

Infant formula continued to be the key driver with double-digit growth. We continued to invest behind our brands. Our super-premium line Illuma and the premium products NAN and S26 were again the highlights. Many markets delivered very strong growth including China,
the Middle East, Indonesia and the South Asia region. Happy to report that Wyeth Infant Nutrition had another good year.

In Baby food, infant cereals saw a steady recovery in the U.S. with strong contributions also coming from Brazil, Central West Africa and Pakistan. The organic fruit purée pouches for infants, combining good nutrition with convenience, were a highlight for meals and drinks in the U.S.

Despite pressures coming from higher input costs, trading operating profit margin increased 80 basis points to 20.8%. This was driven by a combination of active portfolio management, a solid performance in Wyeth Nutrition, and efficiencies across the value chain.

Slide – Other Businesses

Moving on to Other Businesses, we achieved 7.1% organic growth and 5.6% RIG.

Nestlé Professional had relatively good growth. Especially when you consider the very challenging out-of-home environments in both Western Europe and North America that together represent over half of our business. Not surprisingly then, the growth was driven by the emerging markets with China, Philippines, the Indochina region, the Middle East and Russia.

The beverage solutions continued to perform well. And this was helped by the rollout of new technologies behind our Nescafé Alegria and Nescafé Milano machines. Dessert solutions also had good growth.

Moving on to Nespresso. Nespresso grew in all regions. Our ongoing focus on quality and the many investments we made and continue to make in products, machines and services delivered strong results. As I reported at our last call, the successful launch of the VertuoLine system in North America is creating a new premium coffee segment, and we are very happy with the progress so far.

Nestlé Health Science’s growth was primarily driven by strong performances in Europe. We continued to drive new innovations across the portfolio. For example, new products in our Vitaflo business in the UK, a new Boost bottle in Canada, and the Meritene range in Europe.

Last but not least, Nestlé Skin Health had double digit growth with strong performances in all businesses and geographies, particularly in the Americas and Asia.

The trading operating profit margin of the Other Businesses increased by 140 basis points to 19.1%. The drivers of this were good performances across all our Other Businesses and an exceptional contribution from Nestlé Skin Health. I have to say that it is a business whose profitability is traditionally weighted towards the second half.

Slide – Products
I’ve talked a lot about our product categories as I have gone through the Zones, but this slide does serve to highlight where we have challenges and successes from a category perspective.

Powdered and Liquid beverages had good growth driven by both coffee and cocoa and malt beverages. Highlights being Nescafé Dolce Gusto, premium soluble coffee, Milo and Nescau. Both coffee, cocoa and malt beverages, contributed to the trading operating profit improvement of 40 basis points.

Waters we have covered as a GMB.

The Milk products and Ice cream results reflect the challenges we have had in peanut milk in China and relatively flat growth in Ice cream. The 90 basis points improvement in trading operating profit margin was driven by lower structural costs and pricing more than offsetting increased input costs.

The performance of Nutrition and Health Science clearly demonstrates the growth pillars we have here. All elements contributed to the 210 basis points increase in trading operating profit margin, coupled with the exceptional contribution from Nestlé Skin Health.

Prepared dishes and cooking aids’ performance is, no surprise, affected by the challenges we are having in Frozen despite a strong ambient culinary performance driven by emerging markets. The profit improvement here is mainly thanks to cost savings from all areas of the product group and strong growth in ambient.

Confectionery is a similar story to the first half. As you can see the growth is driven by pricing in response to inflation. A growth highlight remains KitKat in Emerging markets. Some larger markets, particularly developed markets have seen intense competition. So the 210 basis points decline in profitability is driven by much higher input costs, and difficulty to take pricing in developed markets.

We continue to see good growth in PetCare. In both emerging and developed markets. The profit improvement is mainly due to the non-recurrence of the Waggin’ train withdrawal in 2013.

That, ladies and gentlemen, covers our business review. Let’s now take a closer look at our income statement.

**Slide – Trading Operating Profit Margin**

The trading operating profit margin was 15.3%, up 10 basis points as reported, and up 30 basis points in constant currencies.

As you can see a driver of this improvement was the Cost of Goods Sold. They decreased by 30 basis points. A reflection of the ongoing benefits from product mix, our efficiencies and pricing actions that more than offset increases in input costs.

Distribution costs for the Group as a whole remained relatively unchanged for 2014, although we did see some variability in different parts of the world as I mentioned in my previous comments.
For Marketing and Administration. The 2013 structural efficiency gains, including in our pension plans, gave us some tough comparisons, but we made good progress in reducing our overheads.

We also continued to drive greater efficiencies in our marketing while reinvesting behind our brands. Our consumer facing media spend was up 5.8% in constant currencies. Digital continues to be a core part of our marketing strategy and now represents roughly 20% of our media spend. It has become a major influencer in the way we engage with consumers.

Our R&D investment increased by 20 basis points, some of this is related to the inclusion of Nestlé Skin Health. The strong Swiss franc had an impact as about half of our R&D costs are here in Switzerland.

Net Other trading items were broadly in line with 2013.

**Slide – Income Statement**

Next is the income statement from trading operating profit to Net Profit.

As I have said the Group trading operating profit margin increased to 15.3% reported, but up 30 basis points in constant currencies.

Net income and expenses includes an impairment of goodwill of 1.8 bn CHF. This mainly relates to the direct store delivery system as the cash generating unit for both Frozen pizza and Ice cream in the U.S.

As I explained in my Zone Americas review, we have seen continuous declines in these categories. This has meant that cash flow projections needed to cover the asset base, as required under IFRS impairment tests, could not be sustained. Therefore we had to take a goodwill impairment for DSD.

Net financial income and expenses were comparable to last year.

Reported taxes have been affected by one-off items. Underlying tax rate is broadly in line with last year.

Income from Associates and JVs has changed following the L’Oréal / Galderma transaction.

Net profit increased 490 basis points due to revaluation of the 50% of Galderma and the proceeds of the partial disposal of our L’Oréal stake. As a consequence, reported earnings per share were 4.54 CHF, up 44.6%.

Here, it is important to bear in mind that we have a drag on the net operating expenses mainly due to monetary corrections driven by hyper inflationary accounting. In turn, this impacts net profit, which when coupled with currencies has affected our reported earnings per share.

Our underlying EPS as reported decreased by 1.7% to 3.44 CHF, this is on the base of a strong 2013 comparison.

In constant currencies underlying EPS increased 4.4%.

**Slide – Free Cash Flow**

The Group’s free cash flow remained strong at 14.1 bn CHF. While this figure includes the proceeds from the partial disposal of the L’Oréal stake, it is also a reflection of our ongoing
focus on capital discipline. Including all elements of working capital, capital expenditure, and a continuous focus on efficiencies and profitable growth.

**Slide – Continued Focus on Working Capital**

Working capital remains an area of focus. While we have not seen the same results as last year’s strong performance, our efforts have delivered another year of improvements. I’m sharing this slide with you as you can see here the way we track our working capital internally. Working on a quarterly average gives a much more accurate picture than simply a snapshot at year-end.

**Slide – Evolution of Capex**

Another important aspect of the free cash flow is our Capex where we have stayed the course. If you recall, Paul said back in 2013 that we would reduce our Capex as a percentage of sales. I’m happy to report that with the help of our portfolio tool, not only have we delivered what you see in this chart, but we have also driven a more discerning allocation of our resources driving value for the Group.

**Slide – Group Net Debt Decreased by CHF 2.4bn**

The Group’s net debt fell from 14.7 bn CHF to 12.3 bn CHF reflecting our strong free cash flow during the year at 14.1 bn CHF. More than offsetting the payment of the dividend of 6.9 bn CHF and the initial phase of the current share buyback programme.

**Slide – Managing the Currency Challenge**

The strong Swiss Franc has again had an important impact on all financial KPIs. In fact, the cumulative impact of currencies has amounted to around 40% of sales since 2008.

Please bear in mind that the Swiss National Bank announcement we saw in January has created further uncertainty to face in 2015.

Importantly, even in these volatile times, we remain committed to a sustainable Swiss Franc dividend, as you can see on the next slide.

**Slide – Sustainable Dividend per Share in CHF**

This chart starts in the 1980’s, but in fact since 1959 we have never decreased our dividend in absolute CHF. For 2014 we have again proposed an increase in absolute dividend.

The proposed dividend, in CHF, is 2.20 CHF per share.

And So, to wrap up my part of the call...

**Slide – Summary**

…Like I said at the beginning of this presentation 2014, was, indeed a challenging year. And I have to say that I am very proud of the Group’s results.
We have delivered both on the Top and Bottom Line

Our growth was broad based in Emerging and Developed Markets

There were ongoing improvements in Operational and Capital efficiencies

Our portfolio has continued to be shaped by discerning choices to Divest, to Fix and Accelerate.

Importantly, we have delivered on our commitments today and have continued to build for tomorrow

With that…

Slide – Outlook 2015

….we expect 2015 to be similar to 2014 and we aim to achieve organic growth of around 5% with improvements in margins, underlying earnings per share in constant currencies and capital efficiency.

Slide – Title

32.54 Paul Bulcke

Thank you Wan Ling, you really gave us the whole story. Let me highlight a few things in the next charts that actually explain how we want to drive and deliver these results, how we do that with this consistency over time and how we want to build further on these strengths in order to continue doing that in the future.

We know that we are living in a ‘not easy’ environment, with soft trading conditions, volatility and instability in many areas. And I always say we have a selective memory, because there is never an easy year. But what is happening today may induce people or companies to really go and shorten their perspective in time, and start to focus and condition what they do towards delivering today. Well we do focus on delivering today, but never we would do that losing sight of our strategic direction and the long-term perspective of this company.

I want to walk you through a few things that I already mentioned to you that are actually linked to certain strengths; competitive advantages perhaps, or intrinsic strengths that are so characteristic of what I see in Nestlé. So the quality of our performance, not only the figures but the quality has dimensions in time. And while we stay the course of our strategic direction that in a few words is the whole of our Nutrition, Health and Wellness agenda, and all of the growth potential, all the added value that comes out of it. We are continuing to take the decisions and the strategic considerations that will also build this company for the future.

You see here we are definitely always combining the short term with the long term, and that has promises, but it also has obligations. And we can do that because of what you see here; because of our intrinsic strengths, which I will rapidly walk you through. It is also to be aware of certain challenges that we have today. Be aware of them; acknowledge them, and do something about them, once again building solutions for them. And then we must also do and invest today. Because before us, people invested for us so that we can do this and continue to do so for the future.
The first thing is our intrinsic strength, which I have mentioned before. Our intrinsic strengths give us that resilience, that consistency over time.

These are definitely what I see as the strengths and competitive advantages of our company. And the first thing is our people. I have mentioned this before, and every time I travel, wherever I go; wherever in the world, it is that strength that radiates and motivates. It is not only the strong commitment to an alignment with what we have shared with you on many occasions; our roadmap, that actually says what we want to be today and in the future as a company, how we want to go about that, where we are going to look for growth, how we are going to organise ourselves efficiently and effectively. Talking the same language is one thing. Also the capabilities and professionalism that we have; the fact that people that know so well the realities of all parts of the world is definitely an advantage. The reason that we can rewire our organisational operations everywhere is people. But then it is the attitudes too. The values that they live, and the way that they go about their business reflect so much what we say Nestlé is all about. It is about Creating Shared Value. That is a strength that is even more relevant in turbulent times.

Then the other is foresight, and I have mentioned this before, foresight and courage, which translate into having today the results of investments made before. Nestlé will celebrate 150 years of existence next year. It actually started 150 years ago with one of these products that we still sell today: Cerelac. And it has been a story of each time reinventing and inventing new dimensions for the future, and that is the strength that we are now building upon in that it is our obligation to do it for the future and the next generations. That is why we are extending the boundaries of our Nutrition and Wellness. And that is why we are investing in countries and taking a long-term role. That is where our strong portfolio comes out; that is where our global footprint comes out and that is what we will continue to do.

And then how we are organised: this combination of how you combine local with global. We are privileging decentralisation as an operational structure, having the operational decision making as close as possible where the action, where the consumer and where the reality is. Yet at the same time, not losing out on global inspiration, on global ideas: rolling it out, having a common agenda, an alignment behind the same roadmap and yet to translate that into actions and results in every market. These are three intrinsic strengths that I want to highlight here that we have to build. It is not for free, you have to build it permanently, but it is something that we have to leverage too. And that is at the base of our consistency today and in the future.

Then we have challenges. And we do have very strong challenges, and Wan Ling has walked you through quite a few of them already. The first thing is to acknowledge them; accept them as a challenge. And we have not done everything right, and we have failed in
connecting with new realities, and we have to see them as opportunities, by correcting them and putting the right actions and strategies in place.

**Slide – The Swiss Franc**

The first one is something that is not so much of our making; it is the Swiss Franc, which Wan Ling has walked you through that. It is something that came to life all of a sudden few weeks ago when the Swiss National Bank decided to unlock or unpin the Swiss Franc from the Euro. However it is actually something that we have lived with for many years already. You mentioned 40% in the last five or six years. And even if you take it further back into the past, it is even more. We have lived through a strong Swiss Franc and it has had an impact. However, Nestlé has a natural hedge because we do almost all of our production and sales in the regions where we operate, so we have that natural hedge between revenues and costs. And we actually do less than 2% of our turnover in Switzerland; we also have our debt and financing, which is 85%, in Dollars and Euros, because again, we have that done in the locations where we have our operations. However, it does have an impact. You cannot just pencil that away. We do exports out of Switzerland; we have ten factories here, and two-thirds of what we produce in these factories is exported. Nespresso is a very good example of that; it definitely impacts the added value that is generated in Swiss francs. We have structural costs, we have our headquarters here in Switzerland and two-thirds of our R&D is based here, paid in Swiss francs. We have translational risk through consolidation, and we always mention that, which is why we use the term 'constant currency', because over the last few years, it has had a limited but definite impact.

Now that calls for action, and we have to take that action further; nothing new, but we have to continue revisiting and rewiring supply chain, logistics; renegotiate contracts with suppliers that do have import elements in their operations, so we have to have transparency in our supply chains and go after these dimensions, which is what we have done. We have a call for intensity there, to go faster. We have to look for productivity gains. In fact, we will be inaugurating in a few months’ time a new factory for Nespresso here in Switzerland that was all calculated on productivity. And now we have an additional challenge to look for productivity gains in these. It is possible; it is one of Switzerland’s strengths, where you are able to do this. And that is the basis of our optimism to do this in the future too. And then we have structural cost, which is not linked with the Swiss Franc but which is something that we are going after permanently, be it here or in the rest of the world, and in fact the recent strength of the Swiss Franc is simply inducing us to do it even faster. That is the Swiss Franc.

**Slide – China**

Then we have other challenges, and we have gone through these already. And one thing that I have made a few points to you that highlights the plans that we have in place is China.

China is definitely the land of opportunity, and we have invested in China, but it has seen some changes. First of all, there is a slowing of growth. There is still growth, but a slowing
of growth, with everything that it brings with it. It is our second biggest market now, so what happens in China is very close to our heart and we are really involved there to see how we can swing growth back into high gear. It must be said, though, that Nestlé in China has grown last year, if you say ‘Nestlé in China’. So what comes out of the Zone AOA is a specific part of the range, but in total we have grown in China. So it is a mixed bag when you see these figures.

There is good performance; we have mentioned it. We have good growth in Ambient Culinary with almost double-digit growth, Ice Cream with double-digit growth, RTD Coffee, the new way of drinking coffee in China; KitKat, as a brand had double-digit growth, and that is a brand that we have been building upon for a long time. There is also Dolce Gusto, which is just starting and has got off to a very good start. Infant Nutrition had a very strong performance last year. Nestlé Professional, which had previously been suffering is back on a very good growth plan. However, we do have many underperformers; these are definitely below expectations and we have the others; Chocolate, Coffee as a category is the same, Yinlu and all of the products linked with that brand; Hsu Fu Chi.

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Indeed, what we have seen is a slowing environment, but we have also seen two, fundamental things. And you see them here; a fast-moving and fast-changing consumer landscape and a fast-changing trade landscape, and we lost touch with these. For quite a while now we have been working on plans to reconnect. Never before, at least from what I have seen, has the consumer fundamentally changed so fast in China. The consumer’s expectations, their awareness of health; their digital drive, which really drives many changes, the fact of clear label, the awareness of so many dimensions. How the consumer combines tradition and really gives value to that and yet at the same time lives with a combination of modern, new. How he works and embraces the local brands and yet also combines that with the international brands. The fact that e-commerce is offering new platforms, new products, new categories rather wrong-footed the traditional dimensions of our portfolio. That is what has impacted us. We did not recognise that at the time and we have to make a reconnect there. And that affects the whole marketing mix and we have done that. That is now in the process of being rolled out.

It is going to be building in momentum over the months to come and specifically from the second part of this year. Nescafé back to 60%/40% preference in all products we have; Yin Lu in nutritional arguments and clean labels and having more protein arguments. Hsu Fu Chi, how we combine that tradition and that traditionalism of the brand and yet give it a modern flavour without touching the fundamental traditional dimension of the brand. How we go for digital and increase our PFME, our product fixed marketing expenses, our support behind the brands through digital channels. China de facto is in the Nestlé world the most advanced already in digital and yet there are so many opportunities.

Another part is trade; a fast moving trade landscape. The word that is used is de-stocking.

What happens is if you have a trade that is multi-layered, built in different layers of distributors – distributors selling to distributors. Then you have the other dimension of first
tier, second tier, and third tier cities. When you have a slowing down you still have a push model, and therefore a dis-balance. That is the balance we have to strike again between pull and push and going for the new trade channels towards e-commerce. That is linked with restructuring and re-mentalising your grocery sales organisation and to organise around the e-commerce and combine that with digital and social media. It is linked with product differentiation. I have for each channel adapted product centres, embracing Out-of-Home and Nestlé Professional more deeply. And that is what we are doing.

That has to give back some wind in the sails of good growth in China; a country we are believing in, a country we have invested in and a country where we are going to see growth coming back shortly.

**Slide – US Frozen food**

Another challenge, and I think Wan Ling walked you through the details already, is US frozen food.

It is a category and a business for us that is a challenge. It is a fantastic category because first of all it is part of the North American landscape. It has huge penetration, Nestlé and our brands too. It is a very sizeable business – 23 billion business – and it is projected to be growing by 2% to 3% for the next years to come. The category has decreased over the last years by 2% to 3% every year.

**Slide – Enhancing the brands’ relevance to consumers**

Why? The consumer had expectations that were not given through that category. Expectations such as fresh and how fresh is perceived and how frozen is not perceived as fresh, although it has all the intrinsic freshness in there, and we have to get that across. Less processed natural, gluten free, high-protein. Also, the way people want to eat, not going for the three classical meals but having healthier snacking throughout the day. These are new trends that the category, because of its success, was locked into not delivering, or not understanding and not making these links and we have to connect that category again and our brands with it.

We have spoken in the Boston Investors seminar about that and you referred to that. It is linked with touching the whole portfolio mix. It is a fundamental work to be done. Something we already started a year and a half, two years ago. It is linked to the quality and the freshness of the products, to the ingredients we put in there. It is also going for the intrinsic quality of the category. That is why we have this campaign ‘Freshly made, simply frozen’. It is also through digital to get the right messages across and to support our brands much more. The category was a little bit starved of brand support. You may remember we spoke about the fact that this category was driven into being on deal. There all efforts were just pricing, and people do not buy prices, they buy value and we have to get that back in there and that is what is being done.
It is also repositioning Lean. We are seeing that whole Lean market not only in frozen, but in general, it is a challenge. People do not want to go only for diet; they want to go for healthy lifestyles. That is where the Lean Cuisine has to move into and is moving into.

It is also capabilities. We are also inaugurating in Solon a product technology centre to really go about these new dimensions and to bring that as added value into that category. You see, there are lots of initiatives happening. It is happening as we speak. Rolling out, it started last year. These are fundamental changes that need some time to roll in, to hit and to connect with consumers. The trade has very high acceptance of all the plans we have. That is boding well also for the acceptance of consumers. We see that accelerating throughout the year as from the second quarter of this year.

Just to show, we have other challenges. These are the major ones you have also identified. I just wanted to share with you that we accept them as challenges; we acknowledge that, we are working on that and we have plans that are being rolled-out as we speak.

Slide – Delivering today…and building for the future – Positioning Nestlé for the future

Another point and the last point I want touch on to is how we position ourselves for the future. I have mentioned that Nestlé is a company which has short term intensity. We are there to drive results today. We are living day and day and delivering that behind a common platform and a common strategy. Yet, at the same time, we are investing. Part of the P&L is going for investments that we are going to enjoy later on. We can do that because this company has been driving this rolling building platform dimension. We can do that because they did it for us in the past, building strong arguments, building strong portfolios and brands. That is why we are building on our Nutrition Health and Wellness strategy in a meaningful way.

Slide – Expanding the boundaries of Nutrition, Health and Wellness

The best example of that is our expansion of the boundaries. We are building through our food and beverage, which is the foundation of this company, our Nutrition, Health and Wellness agenda. That is where the biggest part of our R&D goes to. At the same time, that is what is delivering the results today. We have to build and make complementary growth platforms that have a lot of promise; hence there, our new Nestlé Health Science that we started to build in 2011. Then also last year by bringing Galderma and the establishment of Nestlé Skin Health. These businesses are small and yet sizeable. They do already over 4 billion and that is just a start. They have and entail a promise of profitable growth for the future.

Slide – Nestlé Health Science

Nestlé Health Science – three or four years of work on that. We have selected or identified the selection of growth opportunities that will differentiate. We will invest in science. I am not going to walk you through the details; we are going to have opportunities later on for that.

We have also shared and structured that company behind these three businesses.

Consumer care, specifically more intensively organised around healthy ageing and all what comes with that and all the brands that already play there.
Medical Nutrition, a very scientifically driven dimension for specific inborn errors of metabolism and paediatric care, also, metabolic care and so on.

Then we have this Novel Therapeutic Nutrition that really looks for development of transformational nutritional therapies. This is really building the future. That is where also we really go about exploring how nutrition can be linked with the micro biome and giving good answers. We have engaged in venture funds to keep our ear close to the ground because there is so much happening in that field that entails so much promise.

**Slide – Nestlé Skin Health**

Same with Nestlé Skin Health, we brought it in last year. Through Galderma, an existing business with a very strong set-up, with leadership in the specific areas that they are playing in. You see there also we have defined and structured the business also behind three businesses.

You see there Prescriptions, that is basically healthcare professionals handling our leading brands like Epiduo or Oracea.

Self-medication over the counter, Daylong – very strong brands that we have there that are increasingly fuelled by deeper science and research and development.

Then Aesthetic and Corrective.

These are definitely building blocks for the future. We are going to talk over time about how we evolve there, but they entail an amazing promise of profitable growth.

**Slide – Nestlé Business Excellence**

The last point I want to share with you is that a few months ago, here in the fall, I was sharing with you the establishment of Nestlé Business Excellence and to give that the right level under the leadership of Chris Johnson on the Executive Board level.

It is by bringing together Nestlé Continuous Excellence, GLOBE and Nestlé Business Services. Each of them were initiatives that do have and have had a major impact in our organisation. GLOBE dates back from 2000 when we went for harmonising the business processes, standardising data management and also systems and technologies. In 2008 we had Nestlé Business Services. We have now in five markets, five Business Services. We have one central one here. They are servicing our markets and yet there is huge opportunity there to go deeper.

Nestlé Business Excellence is this whole mind-set change of looking into each person of the 340’000 people of Nestlé, this whole drive and awareness of doing things more efficiently. Many projects are converging in our savings that we have been communicating every year.

We are a fundamentally de-centralised company. I have mentioned that, the local global dimension. I am a true believer of that part of our DNA. Yet at the same time we have a size. We have a size that we have to translate into scale and into competitive advantage. If we do and see, just as an example, the benchmark how deeply we are scaling up certain services, be it Finance & Control Services or be it HR Services or Procurement. There is an upside.
That is what this whole thing is all about. To really see how can we leverage our size into scale competitive advantage and look resources so we can invest for the future. That is going to translate or it is going to be done on three basic principles. It is all about simplifying. It is all about standardising where we can. It is all about sharing and levelling it up where we can.

### Slide – Nestlé Business Excellence….fuel for growth

That is going to give us then this highly efficient support structure and it is going to go deep. This is going to touch the whole dimension of our company, every part of our company. We are all involved there and it is going to be a fantastic story because it is going to give us this speed and quality of execution in everything we do with the only purpose to have the resources to invest for our future; to have the resource to invest behind our brands.

### Slide – Nestlé resilient, innovative, consistent

I think that is what gives the Nestlé what I would say, with some pride, definitely these characteristics. Nestlé to be resilient, good times, bad times, resilient, inner strength. Be innovative. Be ground-breaking. Have this vision on and anticipate future dimensions and build for them. Also this consistency of quality. I feel in our operations is dependable. You can count on the people. You can count on the company consistency.

### Slide – Nestlé

With that I think I have come to the end of my little part where I really wanted to stress a few intrinsic dimensions that are sometimes not mentioned with the right attention. I have said that one of our strengths is our people and I want to say again how important I feel people are. They, at the end, bring all these results and I want to thank them for that. With that, thank you very much for your attention. We open now for questions and answers.

Thank you very much, and we are open now for questions and answers.

### Question-and-Answer Session

| Questions on; | Improvement in US and US Portfolio | Chinese de-stocking |

**James Targett, Berenberg:**

Good morning everyone, two questions from me. Firstly, just on the US, I wonder if you could give me price and colour on the magnitude of improvement that you saw in the second half or fourth quarter? You have clearly communicated the need for repositioning of some of your brands to make them relevant to the consumer. However, now how satisfied are you with the portfolio you have in the US, particular in Frozen? Is there still some pruning to come or bolt-ons?
Then, secondly just in terms of China, again you flagged you need to reposition some of the zone categories in China. That still needs to be done but is the de-stocking element that has impacted the performance in 2014 broadly over now or do you expect that to be a drag again in 2015? Thank you.

**Paul Bulcke:**

On Frozen I think we have been quite explicit there. This is something that we are not rolling out now only. We are touching each area, so we have four categories there where we have the leading brands. We have been working on them now for quite a while. There is an acceleration of launches because when you start reformulating brands, repositioning, not fully but repositioning, redesigning brands also, revisiting your communication, these are fundamental shifts.

It is clear that we are not going to have them all at the same time. We have been doing already certain things in hand-held and in pizzas quite a lot. However, we do see for Lean Cuisine and Stouffer’s the re-launches being done as we speak with connection with the trade, some to come on in second part. That is going to have to get traction. I think we have compelling plans but that is going to have to get traction over the months to come. It is clear that momentum is going to be built up over the months. I would say in second quarter and then further on.

If you compare versus the years before, we had decreases so we are definitely speaking about vigorous growth again. It is good timing because the North America consumer confidence is again taking some additional colours and there is openness for it. I am really optimistic to see good results coming of all the efforts we are going to do. It is clear we have to have the trade first with the new offerings and before we really start to support these new ideas and new brands. That is going to be also a bit later on. It is something that is going to take momentum, definitely.

In China the de-stocking; I spoke about the change in consumer. At the end of the day that is what drives sales. Yet at the same time you have this purpose. There was definitely a system in China where through the different layers and different dimension of cities, the first to second tier. You had quite a lot of stock in the trade. You get a softer growth environment. The softer pull of take-off and do not identify that as a company or as an industry. Actually the whole mind-set was push because it was growing and it was nothing too much. All of a sudden there is devil in the counting. All of a sudden you slow down and it pushes back upstream.

That is what we have been doing now for quite a while because you do not do it abruptly. There is still some remnants to be done but we have definitely now embraced this whole pull model where you go really for the consumer. Then we have the right offerings and hence the whole re-formulation of the marketing mix. These are not done overnight, but that is again coincidence maybe in the timing.

That is again something that has to gain momentum. Also the launches are coming in. They are being rolled-out. Again, not all at the same time. They are going to have a phasing
because there are also efforts and people involved there. Our sales forces have to be linked to that.

We are going to go there in a few weeks’ time again to see it *in situ*. I see good things happening and there are very good arguments linking our brands with the consumer. That is what matters and that is what is being done. That does not have the same impact in time as, for example, de-stocking. We have got the bad all at once. We are going to have good rolling-out and gaining momentum over the next months.

**Jon Cox, Kepler Cheuvreux:**

A couple of questions for you. Paul, you seem to be talking quite a lot about the cost base in Switzerland and obviously in 2014 we saw a 30 basis point impact on the margin from that slightly over-exposed Swiss cost base. Given the fact that the currencies at the moment seem to be pointing to a minus 6%, similar to what you had in 2014, would you anticipate another 30 basis point impact as a result of what is happening with the currencies? Or are some of these measures you are talking about you will think that maybe there will be a reduction in that impact? That is the first question.

Then a second question, maybe for both of you: your thoughts on dividend and buyback. Obviously again you have increased your dividend, which obviously is good news in this environment. You have the buyback going. What should we expect going forward? You seem to have maybe moved the mix back to buyback plus dividend from dividend from the previous CFOs. I am just wondering what you think of that?

I just want a quick sneaky number three question, if I can? Just to come back to that China situation and the de-stocking. Am I right in understanding that it is because a lot of the products now are moving to e-commerce and you have not actually been there so exposed and that is the issue for you in China, at least partly? Thank you.

**Paul Bulcke:**

I may give some of the answers to Wan Ling but on the cost base in Swiss francs I have to remind you, for example, a few years ago we had a Forex impact of almost 12% over the year versus our basket of monies there. That was an impact of 30 basis points. However, I do not see and I am not going to express, because that would be very anticipative, that the Swiss franc is going to have that impact. That is why we are going to work on that to see how we can soften the impact of the Swiss franc revaluation. We have all year to do that. I mentioned we have been going after that now for many years. We just feel that there is a little bit of an acceleration or visibility from all sides. However, that is going to be done again, like we have done over time that is productivity gains, basically. There are still upsides and that is what we are going to work on. At the end of the day also NBE is part of that solution.
too in the sense of how can we really have support functions being better and more efficiently given.

On the dividend and the buyback, dividend policy has shown quite a nice history. We want to have some traditional qualities too.

China, I would not say it is e-commerce taking over. There is traditional trade. People go to stores etc. There is e-commerce but I feel in China it is re-connecting with consumers in general. We still have very good growth and very strong brands there going well in many areas. Some have weakened. They still connect with consumers. We just have to add additional new expectation around the consumer and build that in our brand architecture.

E-commerce has gained a lot of traction, it is true; e-commerce has different portfolios that are offered, that may wrong foot the traditional dimensions of the consumer product landscape. That is where we want to reconnect. These are adjustments, some deeper than others, adjustments that we are making. However, we are engaging definitely in e-commerce as a trade channel in China. What I do see and I have mentioned that before, I think e-commerce in all its expression and forms is going to be actually proportionally more important in the developing younger markets where you do not have such a strong retail base yet. A little bit like the cell phone, how these markets or these countries are jumping stages and that is why we engage in digital, be it social media, because they are intimately linked to each other and e-commerce. That is also part of the answer we give in China, building these capabilities in an accelerated way and engaging with the big e-commerce players proactively and in certain dimensions, partnerships.

Wan Ling Martello:

Hi Jon. On dividend we have made it. We have repeatedly said that it is going to be a sustainable dividend policy. For 50 years we have never reduced it in absolute terms. That has not changed and will not change. In terms of share buyback you have seen on our cash flow statement we have done 1.5 billion of the 8 billion programme that we announced last year. To date we have done 2.5 billion and that is a programme that we intend to complete by the end of 2015. That should answer your questions on both.

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John Revill, Wall Street Journal:

In your guidance, Mr Bulcke, you say you are guiding for around 5% organic growth for next year. Does that mean you are preparing the way to go lower than your 5% to 6% next year as well, after two years of missing it?

The second point, you described these results as solid but they are actually your weakest growth in five years. Is this solid compared to your peers or how would you describe that?

Just a final cheeky one as well, can you just give us a bit more colour about China in terms of the de-stocking? Is it basically you had the wrong products before and you have replaced them now? Or just a bit more colour on what has happened in China? Thank you.
Paul Bulcke:

Thank you, John, you are always nice to me. Thanks, we can talk later still. This around 5% is actually the best expression of a sense of reality and answers your second question. You said that the weakest growth etc. You look at the world and you see what the growth environment is of the world, we are part of that. What we did though is again building growth, on growth, and do that also by outperforming the market and combining top line and bottom line at the same time. That is what I call consistency. I think that is what I meant with solid. I did not say they are excellent, they are good. I said solid. That I think is what it is.

I did not fail the Nestlé model, per se. I explained that here quite explicitly last time. The Nestlé model is something we are aiming at for the medium term and that is built up and sometimes we go over it. We do not excuse ourselves for that. Sometimes we are under it but you see though over the medium term it is right there, 5% to 6%. Why? Because that is what we feel we are working for. We are conditioning our company for and that is what the environment over time should allow us to be doing.

We are aiming again at 5% because that is how we are. Sometimes I say to myself we are arrogant because that is what we are aiming for. We have all reasons to soften but we are not asking a low weight on our shoulders. We are striving to strengthen our shoulders and say we are going to do whatever it takes to get to 5%. That is our aim. That is what helped us, for example, last year to over-perform because we aimed to 5%. Around 5% is a term that I feel is appropriate for what we feel is in there for this year.

I do believe what I have said in China and there is always this dimension of this de-stocking. I do not feel that is right to explain. That is actually an effect. That is a result of something. Softer environment, softer this, models of push, balancing push, pull. I feel it is much more important to understand as a company are we still connected? And we are. We are very hard on ourselves because we go, 'What does not work? What works? Let it go on.'

But, certain dimensions, certain brands and certain parts of our brands, connect with the Chinese consumers, millions of times a day. Yet there is a movement, a shift, and that shift we should translate into that brand to be able to connect with that shift too. That is what we are talking about. De-stocking is what you see. That’s the effect. That is what hurts on the figures but there is something more important underlying that we are working for. We do one but basically what matters is the other one. I feel that has a softer impact once you reconnect, you re-position, you re-formulate, takes time. All these things have a longer timeline to really impact and let us wait for that now.

John Revill:

You had the wrong products in some places and now you are replacing them?

Paul Bulcke:

No. Hsu Fu Chi is a brand that is so much tradition, so much linked with the landscape of the Chinese consumer. We are not going to throw that away. That has value. Yet at the same time we have to build behind this brand, without disturbing the tradition, the new dimensions and new expectations. It is not wrong or right. It is evolving. That is what we are doing. We
are not throwing things out and restarting. There is no rebooting of certain brands in China. There is this evolution, connecting in different dimensions. Brands have different faces to the consumer. We add them so that they respond to the new expectations.

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Alan Erskine, UBS:

Good morning. Just two questions for me, technical questions really. Firstly, Wan Ling, you mentioned that the margin performance of the other divisions was helped by the fact that Galderma is seasonally weighted to the second half. My question is, can you give us an indication if Galderma had been there for the whole year what the difference would have been to the margin?

My second question was with regard to the performance of Nutrition in the fourth quarter. If I have done my numbers right, it was a very strong performance, lapping the very strong performance in Q4 of 2013. I wondered, could you just give us some colour as to what the main features for Nutrition in the fourth quarter? Thank you.

Paul Bulcke:

On the margin Wan Ling said the business of Nestlé Skin Health, Galderma, is weighted to the second part of the year. As we had it only in the second part we have an advantage there that is going to be softened if we would have taken it full year. That is what we are going to have this year. Basically I feel this is the answer. I would not like to go in more details there. Then on Nutrition fourth quarter, maybe you, Heiko, you can give us some light of why is Nutrition going well and specifically in the fourth quarter?

Wan Ling Martello:

Hi Alan. On the Galderma impact, it is obviously not something that we publish because it is part of our Other Businesses. But if you look at our Annual Report you can very easily calculate the impact. It is there. It is there; we do not publish it.

Paul Bulcke:

Nutrition has gone well for us and Infant Nutrition. In certain areas, in certain geographies, really well for us and we saw some acceleration.

Heiko Schipper, Nestlé S.A., Head of Nestlé Nutrition:

If you look at the performance of Nutrition in the fourth quarter, it is more a continuation of also the quarters before. It did not particularly grow more in the fourth quarter than in the previous quarter, but it is true that last year in Q4 we had a very high comp to compare with. I would say, similar to what Wan Ling and Paul were highlighting, is that very strong performances in Asia across the board. Yes, in China, but also in the rest of Asia, particularly on our formula and our GUM [growing-up milk] businesses. That is a continuation and I would say on e-commerce, an area which there were some questions about, we have certainly also accelerated our performance there. That is maybe something
that throughout the year we have seen quarter by quarter an acceleration of our business there.

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**Alex Howson, Jefferies:**

Good morning everybody. Can I just confirm how you have treated the organic growth of Galderma and other acquired Skin Health assets this year? Have you included these within the Group organic growth number or within the M&A number? If you have included it within the organic could I ask how many basis points contribution it has made to the Group number?

Then, on a separate tack, could you give a little more on how the VertuoLine launch in the US has progressed? You say you are pleased with it but perhaps you could flesh out what has been achieved to date with the launch and if it has driven a materially higher rate of growth in Nespresso in North America?

**Paul Bulcke:**

We have given already on Galderma some answers on that. On the VertuoLine I am going to say it is really going well. Also Nespresso Classic is going well. It gets quite a good traction. The acceptance of VertuoLine is going very well. Also what is very important to us is the usage of it. There is a high throughput on the people who bought the new machine. It is really giving very good marks on acceptance of the product so that is very important again. It is something that starts in the biggest coffee market, so it has a lot of promise. We are very happy with how the VertuoLine, together with the Nespresso brand in general, is going in the United States. I would leave it there.

**Wan Ling Martello:**

On Galderma, in terms of organic growth, yes the organic growth for Galderma for the six months in the second half after we finished the transaction is included in our OG. That is included and the impact is about 10-20 basis points.

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**Gerry Gallagher, Deutsche Bank:**

Good morning everybody. Thanks for the question. I just want to come back on the guidance, if I may? I could not help but notice the inclusion of the words, ‘we aim to achieve organic growth of around 5%’ and I think those two or three words ‘we aim to achieve’ are new. I appreciate that you have made the comment in the past [inaudible] the excuse to miss numbers. That is why you have [inaudible] the five [inaudible] around five. Firstly, is this the way of giving yourself an additional room around the 5% number by putting the ‘we
aim to achieve’ comment in? Secondly, aligned to that, can you give us a sense of impact of [inaudible] in terms of the contribution to organic growth? Thank you.

Paul Bulcke:

We are going to try to read your questions because it is a very bad connection. The first one was actually I think it was a comment. You are stretching a little bit, the statement saying you ‘aim to achieve’ around 5% is quite a few words together to say you get some freedom. I think in a volatile world we are living in that is appropriate. I mean I am really not worried about 10 base points more or less on this. I really want to outperform and deliver upon what we promised ourselves to. As an organisation, we are aiming at 5% growth. I believe it is in there for us to make. We are going to see how far we get. That is what brought us in very difficult years already, two times to 4.5%, which is a fundamental building block of the Nestlé model because 4.5% will add up eventually or it adds up in the past already. We had on average over 6% growth so that adds up to deliver the Nestlé model which is 5% to 6% in the short term line that we want to walk. That is why we say we are aiming to achieve because I do not want relax an organisation like Nestlé and say, ‘Let us adjust a bit our targets now and let us go for 3% to 5% span so you can actually choose then. I think it is maybe arrogant. I should maybe not be so arrogant. What it does though, it aligns an organisation like Nestlé. Actually, around 5% is only for me, because everybody has another figure. That is linked to the potential of the reality, the potential of the business he is responsible for. I think that is actually the way we work. The internal targets, to a certain extent, are what we pronounce to the outside world. We do not play around with we go for this but we only give that. I hope we can together live with that kind of guidance.

The other question I must say was about America something but I did not hear the question. Gary, I did not hear your question. I am sorry for that, Gary, but we can always answer if it is a specific question for you. We can always answer that later on.

Questions on; Confectionery margins and Profitability
Specifics on weak performing geographies and categories

Warren Ackerman, Société Générale:

Good morning, Paul. Good morning, Wan Ling, Steffen. The first question from me is around Confectionery margins down 210 basis points in the year. Some of your peers have pointed out that Nestlé has taken no pricing in Chocolate in Europe in 2014. I am just a bit surprised by this, despite your comment about the difficulty to pass that on given the intense retail backdrop. You have clearly been hit by much higher cocoa costs as we can see in your margins. If I go back a few years, a trading operating margin in Confectionery was above 17%. The question is should we getting concerned about profitability in Confectionery and is your policy of not taking pricing in European chocolate likely to remain your strategy in 2015? That is the first question.

Then the second one, I just want to touch on a few geographies. Why was the UK and Germany weak? Those two geographies have been quite good in the recent past. What has changed there? Then on Latin America, you talk about a slowdown towards the year end.
Which geography and categories are you talking about? Perhaps you can say a word on Mexico and the impact of the soda fat taxes on category growth? Thank you.

**Paul Bulcke:**

On no pricing maybe we did not do so much pricing last year because we did before. Normally we are the first one to price. That is how competition is. Everybody talks and that gives its own arguments. What we did have though is a very high impact of the cocoa price. Yes we did. That is basically explaining what happened. Also on the bottom line. That is to be ironed out again. We had good gains the year before that has been given back a little bit there. Maintaining the systems of our business is one of the highest elements on our agenda and we are going to go for that.

Part of UK, Germany is linked with exactly that. High price competition in Confectionery. If you see Coffee went quite well in Europe but Confectionery, especially in UK, had a little bit of soft effect. Actually I felt we could reverse the arguments others are using. Latin America is always a mixed bag. You know that. Mexico had softer growth during the whole year almost. We see that coming back now next year. It is so much linked also with North America. Also in the NAFTA dimension. As North America, USA, is getting more colours back we may have Mexico also getting better.

I think also the tax has taken out the dent in consumer consumption because what it did was increase prices for the part of society with less purchasing power. That is an effect of having taxes on certain dimensions is that they are touching specifically food that goes to that part of society. That is there impacted the whole industry to a certain extent.

Also Brazil, although Brazil saw some slowing, linked also with raw material prices and what drives their economy and we are part of Brazil. You know the huge penetration we have in Brazil. However, I see that Brazil is actually already on slightly slower growth than we were used to. We are going to have to live with that although we have quite a lot of innovation there coming into the pipeline. Also a lot of increase in brand support because in Brazil brand support is essential. We are increasing our brand support there.

These two big markets are actually conditioning. Yet at the same time all other regions, Chile, Peru, Central Caribbean, have shown good growth figures. There is a lot of good stuff. However, these two big ones are conditioning a little bit the perception of Latin America.

**Wan Ling Martello:**

Just to add to the specific question on Mexico in terms of the fiscal legislation. That affects about 20% of our portfolio, Warren.
Yes, good morning. My first question is on the price outlook for 2015. You mentioned that in Q4 there was a slowdown in pricing. I was wondering whether that momentum should continue to decelerate, especially there was some point about deflation in Europe? On the same page, could you tell us what is your raw material cost expectation for 2015 and whether that effectively is driving the pricing lower?

Robin Tickle:

We cannot hear you very well. Celine, could you repeat the second part of your question? We could not hear it.

Céline Pannuti J.P. Morgan:

Yes. My first question was about weakening pricing as well as the raw material outlook for 2015. My second question was on FX. At current rate what should we expect in terms of impact on top line? Am I right from what you said on the first question that the impact on the margin would be less than 30 basis points?

Wan Ling Martello:

Hi Celine. It is Wan Ling here. First of all you know we do not guide pricing. Pricing is something that we do locally and we do not do it on a Group level. But, having said that, our expectation is no different going into 2015 which is emerging markets and hyper-inflationary countries, we should be able to take pricing, develop markets of Western Europe, North America. North America we might be able to do something in Q4. We were able to take some pricing in terms of Frozen, actually. Western Europe more of the same. The dynamics, going into 2015, will be more or less the same as 2014.

In terms of input costs our guidance is the same as 2014, in the low single digits for input costs. In terms of FX we do not guide in terms of FX impact on our results. One thing to bear in mind, there is a translation and there is the transaction. From a transaction standpoint Paul talked about it in his presentation. Almost between 80%–90%. There is not a mismatch between sales and costs because we produce where we sell. 2% of our sales are basically in Switzerland. From a translation standpoint, yes, but we do not guide on that. From a transaction standpoint there is not a significant mismatch because it is like I said; between 80%–90% is natural hedge.

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Bernd Biehl, Lebensmittel Zeitung:

Hello Mr Bulcke. You talked about Business Excellence and impact of 10 or 20 basis points. We are talking about efficient consumer response and value chain management for 20 years now. Do you not have higher impact in your company with all this efforts you drive internally? Or do you give it away to your customers, to your retailers and to consumers?

Paul Bulcke:
Giving away is a bad term because it sounds like for free. First of all, in NBE we bring together already initiatives and I mentioned our company they are already there. That is what has helped us also to really drive our performance over all these years. We speak about GLOBE as an enabler. We are speaking about our Nestlé Business Excellence and Nestlé Continuous Excellence efforts are really driving a lean thing into the organisation. It is always many things coming together that allow you to deliver. The results are part of what we deliver. Other part is we have increased our R&D over the last years. We have increased also our, as we call it PFME or support behind our brands because we have every year more added-value products that we have to communicate deeper for. We are building the platforms for the future. Also that takes resources. Like the Institute of Nestlé Health Science. That is supporting Nestlé Health Science as a business and that has a lot of promise.

These are upfront investments. What we do with whatever comes out in more efficiencies and more effectiveness is to really use that as a fuel for growth. That is how actually we are calling Nestlé Business Excellence by bringing these three dimensions together. By going deeper into the organisation there is going to be resources to fuel growth. We do it for that. Part of that goes to the bottom line. Part goes to customers, yes indeed, to keep on being competitive in our relationships with them versus the others. It is a matter of resources and we take them where we have upsides. I think we have still upsides there. I do not think I spoke about 10 basis points. The 10 basis points or increasing margin we say is the target. Again that is something we have set for ourselves. That is, if we go as a company and leverage our scale better, if we do Nestlé Continuous Excellence well, if we are smart and driving added value to our products that should have an effect on margin. That is why we say we go for our margin. What we get in additional resources, much of that goes behind supporting our future.

| Question on; | Nomination of Patrick Aebischer for the Board  
Impact of increased productivity on employees in Swiss factories |

Valère Gogniat Le Temps, Geneva:

Hello. Thank you very much. I just have two questions. My first question is you will propose Patrick Aebischer to be elected at the next Annual General Meeting. I would like to know if you could just comment on what you think he can bring to Nestlé.

My second question, you said the productivity in Switzerland must be raised because of the Swiss franc on your ten factories. I wanted to know how very concretely do you think you can raise the productivity and if it will have an impact on your employees here in Switzerland? Thank you very much.

Paul Bulcke:

I think if you see the track record of Patrick Aebischer, can he bring something to Nestlé? If you see what we want to stand for it is to drive enhanced quality of life for people through Nutrition, Health and Wellness, based upon increasingly science-based innovation. He is somebody who has a passion for exactly that and how nutrition is part of a healthy lifestyle
and science etc. I think it is a very strong addition to the board of the company that has the same agenda. I see that as very positive.

Now on productivity in Switzerland, what we said does not mean taking people out. These factories are growing. You have to be effective in competing even with the Swiss franc, of having these factories having more production. We are going to absorb that with the same people, definitely. We have a natural outflow of people. Should we replace them? I do not know. We are going to have to see. Definitely there we are in direct discussion with our employees to see how we can be more productive. Now the easy part, what I see a little bit of, is too easy for us, will be we take 10% people out. That is not the answer.

We have invested. I have mentioned our people here before. They are driving results of this company. Now there are productivity gains to be made together and that is what we are going to do. We have to start saying also, ‘Should we increase our salaries?’ I do not think so. If you see that Nestlé alone has reduced price of 600 products while inflation in Switzerland should at least – if there is one effect that we would expect of having this strengthening of the Swiss franc coming in – is that quite a few products should go down in price because there is still quite a lot of imports here. We have to see that altogether and that is what we will do.

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Katsuhiko Hara, Nikkei:

I might have two questions. The first one is about the Swiss franc. In the actions that you will take to encounter this situation, you do not mention moving the production or the R&D or the headquarters out of Switzerland. Maybe you feel that is too extreme? Or given the situation with immigration as well?

My second question is about Japan. Since you are doing so well with innovations do you have anything in mind that you want to take out to the world and expand?

Paul Bulcke:

Let me first answer in Japan. Japan is a good story and that is in spite of all. You see, there is an environment, a good inducements to help you to have all the arguments and say, ‘Well, I am not growing because look at – and then you go.’ However, we do have vigorous growth in Japan and why is that? Because of creativity, very innovative ways of going about the business, bringing new elements in. There are ideas that came out of the market that are I believe useful for many other markets. It is an attitude. It is not accepting a ‘no’ as an answer and finding new ways, digital, going deep in there. New systems, adding value to the base products we have and building value around that for the consumer.

Actually, I think we are going to have one or two of these Dr Peppers here, when you go out a little bit later so you can really shake hands with them. It is very cute. It is again quite a few things that fall together. However, there is one common denominator on that. It is entrepreneurship, going after it. There is so much value to be created even in countries that do not have that natural pull effect of growth. That is induced growth, definitely. You see
KitKat again last year. Very good growth. KitKat that was already a sizeable brand in Japan well it is growing like it just started. Nescafé, very strong growth there too.

On your second question of moving, these are the questions that you get then, ‘Is Nestlé going to move?’ We are a Swiss company. We have our headquarters here. We have R&D and in fact R&D grows and then you have tendency of growing. We have factories. We are going to inaugurate in Romont a Nespresso factory. It is clear this is a decision taken a few years ago. Would we take the same decision? I do not know. We have to see. It is clear that the decisions are made taking into account many, many dimensions. There are so many good dimensions here in Switzerland. You have just to see, would that be the same equation today. It is not only the strength of the Swiss franc. It is part of and I would say it is the minimum part.

It is more that framing condition of Switzerland that I feel, with immigration, with etc. that I think Switzerland has to think about that. It has to think about that. I am saying we are going to translate or bring or export parts of our activities to the outside world. I am not saying that. What I am saying is, if we would have to expand something here, well I would think twice. That is another way of saying it. However, I think we are part of Switzerland. We and Switzerland have to think about that.

### Questions on; Interest in Ferrero

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**Johannes Ritter, Frankfurt Allgemeine:**

Two questions. If Ferrero was for sale would you be interested? The second one is: why did the operating profit as a percentage of sales fall in 2014?

**Paul Bulcke:**

The first question I am sorry, I am not going to answer that. Actually this family is in a special moment and I respect that. I am not going to have comment on that. On the operating profit as a percentage fall in 2014? It was the reverse.

**Wan Ling Martello:**

Yes, trade operating profit was up both in reported and on a constant currency basis.

**Paul Bulcke:**

It did not fall.

**Wan Ling Martello:**

Yes. It was up in constant currency by 30 basis points.

### Question on; Acquisitions

| Negative rates on bonds and impact on financing policy |

**Ueli Hoch, AWP:**

Two questions from my side. First on acquisition, are acquisitions actually becoming more of an issue if the Swiss franc should stay on this high level we have seen in the last weeks?
Secondly, on financing, we have seen negative rates on some of your bonds in the last couple of weeks. Does this have any impact on your financing policy? Thanks.

Wan Ling Martello:

This is clearly a very interesting time that we are in, and as a company Nestlé we are obviously going to leverage whatever favourable condition that is out there. That we will continue. In terms of M&A we do not guide in terms of specific transactions. Clearly, we as a company, our first focus is on growth and investing for our future, so to the extent that there are interesting acquisition possibilities out there, we are always looking at them. But we do not guide in terms of specific names.

Paul Bulcke:

Also, the Swiss franc is stronger. If you buy something in another country the natural hedge plays again. I do not think that is not part of our consideration per se to do acquisitions.

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Nathalie Olofs-Ors, Agence France-Presse:

I just like to come back on the pruning of your portfolio. Back in 2013 you said you were starting a major review of the underperforming brands. Could you let us know where you stand on the process? Shall we expect some form of acceleration on this?

My second question would be around artificial flavouring. Two days ago you announced that in the US you would remove artificial flavouring from confectionery. Could you let us know if you intend to extend that to Europe or to other categories and what that says about consumer trends? Thank you.

Paul Bulcke:

Portfolio management is not only about pruning. Pruning is part of it but portfolio management is to have insight and to make that shared with people who decide on what we expect from ourselves as we go. Categories or products or brands and markets – what we expect from them. By defining that very explicitly and build that into your whole planning process you create an awareness that each cell has to earn its place. When it does then we invest even more. This is also a tool that is not only pruning. It is also to decide where we allocate our resources because we have higher possibility of winning. That is driving better profitability and growth but has prospect of having our agenda and lead in that category etc.

SKU management is one of them where we really prune because there we take out was really more ballast than enjoyment. What is important is we say we are going to accelerate portfolio management. We had portfolio management. What we did is actually make that awareness much more visible and explicit in decision criteria and also make that decision criteria much more felt through the whole organisation. That is now built into the strategic planning process in a very fundamental way.
Artificial flavouring is something we have been working on for quite a while. What we did in the United State, we said, ‘At the end of the year it is over’. That is a bit linked with the commitments that we have publicised on many other areas. You may remember in our Annual Report we said, ‘Look, instead of having these internal objectives and all and no transparency, why are we not putting them outside and share them? Say that is what we are going to do. That is what we are aiming for. That is what we will do.’ We report and you are going to see now in the Annual Report of this year again, we report on last year and how we are doing and commit for the next years to come on many of these issues too.

One of the biggest challenges of these commitments is what we want to be as a company, Nutrition, Health and Wellness. Artificial flavours with consumers, although fully safe, that is a sensibility that the consumer has. We answer to that. We have done that already and all products that go specifically to kids, like Smarties, they do not have that for many years already. We commit to the outside world to do it in a whole range of chocolate and confectionery in the United States. That is a move that is in Europe too. We do not say we do something in the United States but Europeans we do not care. The insights, the way to do it is to apply it worldwide over.

**Concluding comments**

I just want to stress that results are coming because of certain qualities that you have to build. It is not for free. This combination of building and yet at the same time delivering, striking that balance is what I see as one of my personal objectives. To keep that balance going. To invest, yet at the same time to deliver. That is what guides 340,000 people. That is what we altogether want to deliver. We are going to work for that and we are going to do that again with the consistency and balance that Nestlé has been characterised for, we will keep that energy going in to that too.

With that, I want to thank you all for having shared this time with us and showing interest in our company. See you then on the next occasion. Thank you very much.

**END OF TRANSCRIPT**