

NESTLÉ S.A.

**2016 THREE MONTH SALES  
CONFERENCE CALL**

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Speakers:

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**Steffen Kindler, Head of Investor Relations, Nestlé S.A.**

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**Steffen Kindler, Nestlé S.A., Head of Investor Relations****Slide: Title slide**

Good morning, everyone, welcome to Nestlé's Three Months Results Conference and Webcast. My name is Steffen Kindler. I am the Head of Investor Relations, and I'm here with François Roger, the Nestlé CFO. As usual, we'll start the call with a presentation, and then open up for Q&A.

**Slide – Disclaimer**

I will take the Safe Harbour statement as read. And with that, I now hand over to François Roger.

**François-Xavier Roger, Nestlé S.A., Chief Financial Officer****Slide – Confirmation of momentum in Real Internal Growth**

Thank you, Steffen. Good morning to all. You saw the result we published this morning. We achieved almost CHF 21 billion of sales, real internal growth at 3%, and organic growth at 3.9%. Our growth was broad-based across geographies and categories and between Emerging markets and Developed markets.

As anticipated, the first three months continued the positive momentum in RIG and confirmed the trend that we saw in H2 2015. The 3% RIG that we had in Q1 was strong and is coming over the 2.6% of RIG that we already had last year.

So it is somewhat accumulating and it is evident that our growth is sustainable and it is also the evidence of the fundamental health of our business in difficult times.

During the quarter, our market share increased again across categories and market, and this shows the relevance of our investment in marketing and R&D both last year and this year. As expected, pricing was low. It was actually the lowest pricing level over the last 10 years in each and every single quarter. And the low pricing is essentially driven by low commodity pricing and deflation in the western world.

**Slide – Growth is broad-based, RIG accelerates in each Zone**

Moving to geographies, I just remind you that this slide include all businesses, which means includes locally-managed, regionally-managed, and globally-managed businesses. You can see that we have a broad-based RIG across all geographies, 3.5% in AMS, 3% in EMENA, and 2.4% in AOA.

We have a healthy level of organic growth at 5.5% with AMS, 3% with EMENA, and 2.3% in AOA. Pricing was lower than last year in both AMS and EMENA.

**Slide – RIG accelerates in Developed and Emerging Markets**

Moving to the growth between Developed and Emerging markets, 57% of our sales are in Developed markets and 43% in Emerging markets. And RIG accelerated in both groups, 2.9% in Developed markets and 3.2% in Emerging markets, so strong RIG in both groups.

Organic growth increased in Developed markets at 2.5% while pricing was at the same level as last year. In Emerging markets, pricing was lower than last year, essentially driven by lower commodity pricing and more specifically Dairy.

Organic growth remains strong in Emerging markets at 5.6%.

#### Slide – Zone AMS

Moving now to Zone AMS with sales of CHF 5.8 billion, RIG of 2.7%, and organic growth at 5%. We gained market share across the Zone in almost all markets and geographies. We have two subgroups there; North America and Latin America.

I'll start with North America, where we saw a clear acceleration of the RIG with the strong performance of our Frozen Food business and especially with *Lean Cuisine* and *Stouffer's*, which have been really pulled by innovation and a successful new communication. We had a solid performance as well in Ice Cream and *Coffee-mate*.

With PetCare, we had a mid-single-digit growth pulled by *Purina One* and *Pro Plan*, and this mid-single-digit growth that we achieved has been achieved in spite of still some pressure with *Beneful*, which seems to come to an end though.

In Latin America, we have a mixed picture. In Mexico, we had a strong double-digit growth, and the double-digit growth happened basically in all categories. In Brazil, we are slightly positive, which we consider as resilient, in the context of a worsening macroeconomic situation. Brazil, as you know, is probably going through the deepest crisis it has experienced over the last few decades.

Country-wise, we had a strong contributions as well from Chile, from Colombia and the Plata region. Category-wise and product-wise, *Nescafé Dolce Gusto* and PetCare continued to deliver a strong momentum, and *KitKat* grew as well across the entire region.

#### Slide – Zone EMENA

Moving now to EMENA, EMENA is made of Europe, Middle East and North Africa where we had sales of CHF 4 billion, RIG of 3.1% and organic growth of 3.2%. In EMENA, we had a good RIG momentum while pricing was flat.

Actually, pricing flat is composed of two different dynamics: clear deflation in Western Europe; and some inflations in Eastern Europe and more specifically, in countries like Russia, Turkey and Ukraine.

Starting with Western Europe. We have been quite impressed by the positive growth that we have achieved in a deflationary environment, and this positive momentum is essentially driven by innovation. Country-wise, Germany, Great Britain, Spain and Italy did well, while France was a little bit more challenging due to pricing pressure. Category-wise, *Nescafé*, PetCare, Frozen Food and Ice Cream have delivered good results.

Moving now to Central and Eastern Europe. We experienced single-digit RIG there and double-digit organic growth. Russia delivered double-digit growth, and some other countries in Eastern Europe, like Poland, Czech, Adriatic, Hungary, achieved mid-single-digit growth. *Nescafé*, Chocolate and PetCare have been really the growth driver across the region.

In the Middle East and North Africa, we were positive in spite of clear instability that affected our business in the Middle East, where we have a fairly challenging situation in some

countries. We mentioned last time Syria, Iraq, Yemen as examples. On the other hand, Turkey delivered double-digit growth which is good in the current environment.

Across EMENA, we gained market share in, again, most geographies and categories.

#### Slide – Zone AOA

Moving now to Zone AOA, we have sales of CHF 3.6 billion, RIG of 1.7%, and OG of 2.1%. In Zone AOA, we have two very different dynamics, the majority of the Zone's businesses have accelerated and are demonstrating good sustainable growth momentum, and I would mention there Japan, the Philippines, Indonesia, Vietnam and Africa. At the same time, Maggi noodles and Yinlu weigh on the Zone results, and I will detail it a little bit further, and start with China.

In China, we had good performances from many products: *Nescafé*, soluble and especially ready-to-drink coffee. We had good performances in Confectionery and Hsu Fu Chi and Shark Wafers did well. We had good performances in Senior milk with functional benefits under the *Nespray* brand, and Culinary did well as well. However, sales of Yinlu Peanut milk and Congee remained challenged.

In India, the *Maggi* noodle business gained back market share and is performing ahead of expectation. This said, it is still a meaningful negative impact to the Zone compared to last year pre-crisis quarter.

Now, let's move to Southeast Asia where we had high-single-digit growth and most markets performed strongly as mentioned before. The acceleration is rather broad-based with *Milo*, ready-to-drink coffee and *Maggi* as main drivers.

Central-West Africa benefits from strong demand. The equatorial African region continues to build mainly on the success of our brands in Angola, while very encouraging, this progress is also fragile and depends on our ability to continue operating normally in the context of the shortage of hard currencies in some countries.

Category-wise, Soluble Coffee across the zone is doing very well, especially in Japan, as well as in the Philippines and China. The category starts to show encouraging signs of recovery, building on innovations like the relaunch of mixes, as well as increased marketing resources.

#### Slide – Nestlé Waters

Moving now to Waters with sales of CHF 1.8 billion, RIG of 5.8% and OG of 5.3%. Our growth in Waters was, as it was the case last year, essentially driven by RIG in all geographies and it was largely driven as well by Emerging market where we experienced double-digit growth.

Last year, we had premium brands *Perrier* and *S.Pellegrino* growing high-single digits. We have accelerated that further. We are now in double-digit growth for these two premium brands. *Nestlé Pure Life* did well and grew double-digit in Emerging markets. And we are benefiting as well from the strong momentum with some local brands. And I would mention *Ozarka* in the United States, *Buxton* in the United Kingdom, and *La Vie* in Vietnam.

#### Slide – Nestlé Nutrition

Moving to Nestlé Nutrition. With sales of CHF 2.6 billion, RIG of 2.2% and OG of 2.6%. We were pleased with the acceleration of the RIG. While on the other hand, we had less pricing than we had in the past. It's mainly because of the low dairy costs.

Emerging markets are contributing to the bulk of the growth and more specifically with Wyeth and more specifically within the Wyeth range *Illuma* our premium brands. You remember that we are doing extremely well in China with *Illuma*. I would mention other countries as well such Sub-Saharan Africa, Indonesia and Mexico which brought a positive contribution during the quarter.

North America was a little bit more difficult. We decided voluntarily to exit from some regional contracts. Last year, you know this weak contract in some states due to the lack of profitability and attractiveness. And we had a little bit of pressure as well in North America due to the transition to new formats, essentially we – for baby food, we moved from glass to PET formats. Overall, we had a good performance in meals and drinks, mainly supported by France and Latin America.

#### Slide – Other Businesses

Moving to other businesses with sales of CHF 3.2 billion, RIG of 4.5%, and OG of 5.2%. I will start with Nestlé Professional, where we had growth across the board in both Developed and Emerging markets. The growth came essentially from Beverage solutions mainly Coffee, as well as Culinary flavour solutions.

*Nespresso* is doing very well. We have a good momentum in all regions. Europe continues to grow and is in obviously positive territories. *VertuoLine* in North America, you remember that we launched that system two years ago in the United States. It's a much better fit to the American taste of long coffee. We are doing very well in North America with a new marketing campaign and the support of strong brand ambassador. For *Nespresso*, we continue opening new boutiques and our limited editions of *Grand Crus* are delivering very good results.

Moving to Nestlé Health Science, we experienced double-digit growth in Consumer Care mainly with *Boost* in the U.S. If you remember last year, we were at 20% growth year-on-year. This quarter, we were even at 22% and we get some very positive momentum as well from *Carnation Breakfast Essentials*.

Medical Nutrition grew across all geographies and we completed during the first quarter of 2016 our strategic partnership in the microbiome therapy field with *Seres* and in protein technology with *Pronutria*.

Moving to Nestlé Skin Health, innovation and continued geographic expansion had been contributing to nice level of growth. Talking of innovation, I would mention the launches of *Soolantra* for rosacea and *Epiduo Forte* for acne, both products being prescription drugs. And the early results are very encouraging.

Self-medications with our *Cetaphil* range delivered very good growth as well. During the quarter, we have announced the acquisition of the leading OTC acne treatment under the *Proactiv* brand.

#### Slide – Broad-based growth across product groups

Moving now to the growth by product groups. I won't go into the details of each and every single of them because I covered some of them already and move quickly to Powdered and Liquid beverages which, as you know, is mainly Coffee, which represent close to 80% of this

category. We had strong growth, 6.3% pulled by our brands *Nescafé Dolce Gusto*, *Nescafé* and *Nespresso*. In Coffee, we are clearly growing above the market.

Water, I already covered. Milk products and Ice Cream, Ice Cream did well both in Europe and in the U.S., and milk products are a little bit under pressure, affected both by Yinlu in China, and by low milk prices in all geographies. Nutrition and Health Science, already covered. Just for your memory, it is composed of Nutrition, Nestlé Health Science and Nestlé Skin Health.

Prepared dishes and Cooking aids, two different dynamic there: U.S. Frozen, which is doing very well and, really, the turnaround has proven to be very successful. That has been the case for some time already; and Indian noodles is still under pressure because we are still comparing to pre-crisis level in Q1.

Confectionery, we were in positive territories with significant – with some contribution from pricing. And the key countries that have contributed to this good performance are Russia, Italy and Germany.

Finally, PetCare, we have the broad-based growth we benefited from – we start to see some kind of improvements of the *Beneful* situation in the U.S., and we are pleased, overall, by the fact of having a broad-based growth.

#### Slide – Summary

Let me now conclude my presentation with the short summary of the way we see the quarter. We see a clear acceleration of the RIG which is a trend that we have seen already in H2 last year. So this confirms what we anticipated, and we are fully in line with what we had communicated and what we have seen in the latter part of last year.

Pricing is low which is expected as well. It is largely impacted by a combination of deflationary environment in the west and commodity pricing which is at somewhat historical low levels. We are pleased with the steady progress and the steady gains that we have made in market share. And as a consequence of that, we confirm our full year outlook which means organic growth in line with 2015. We were at 4.2% with improvements in margins, improvements in underlying earnings per share, in constant currencies, and improvement in capital efficiency.

Just one last comment, we expect to gain further momentum in H2.

I propose that we now open the lines for Q&A.

#### Question-and-Answer Session

<b>Question on;</b>	<b>Pricing pressures Outlook</b>
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**Celine Pannuti, JP Morgan:**

Yes. Good morning. Two questions really rebounding on the last commentaries that you've just made. You mentioned the deterioration in pricing. I wanted to understand versus where you see Q1, what should we expect for the full year. I know it's a local decision, but are you seeing much more pressure and how in terms of the cycle versus the commodity prices, the cycle in terms of the discussions with retailers, are we rather almost at the end of that in

terms of the pricing pressure or rather midway through in terms of how much they ask you to give back from the lower commodity prices?

My second question is on the outlook. You just said that you expect H2 to accelerate. At the same time you expected Q1 to be slower than the full year at 3.9 versus 4.2 that you did last year is almost close enough to 4.2 I would say. So, should we read into your commentary that you are very comfortable with the 4.2 and indeed could do better than that?

**François-Xavier Roger:**

Okay. Thank you, Celine. Let me answer the first question. On the deterioration of pricing, once again, the two factors that are influencing the deterioration of pricing is commodity. Let me just give some further input on that. If I look at the Nestlé commodity index which takes into consideration our basket of commodity, coffee, milk, palm oil, and so forth, we have seen a decline of about 30% of this Nestlé commodity index over the last two years. That does not always reflect fully in the P&L because there is a timing impact and there are other factors like hedging and so forth, but this is a fairly significant decrease. Deflation is quite material as well.

If we look at the situation about the last four years, we have seen deflation declining by about 3 percentage points in the U.S., in the Eurozone, and in China which would present about two-third, more than two-third of our business. We have seen pricing declining by about 3 percentage points from an inflation point of view. So, it's quite significant.

Going forward, it's always difficult to comment. The only thing that I can tell you is that we believe that there is a possibility that we might have reached the bottom in terms of commodity pricing from a cycle point of view. So, let's see because it's still early to conclude that. But we have seen early signs recently of some increase. And you saw what – even what happened with oil yesterday and this morning.

Talking about retailers. I don't have any specific comment because each situation is very country-specific. So, it's a little bit more complicated. There is another factor as well that I can share with you and we commented on it already last year. We expect that there could be some further benefit of pricing in the latter part of 2016 coming from some Emerging market. I would mention Brazil, possibly Russia. These potentially coming pricing benefits are linked to the fact that many of the currencies of these countries have depreciated significantly. And there is a point when we will have to pass, we on the industry, we'll have to pass on price increases to consumers as a consequence.

Coming to your second remark on the outlook for Q2. As we expected and as we announced, Q1, we expected to be a little bit weaker than the average of the year, so which is the reason why we are down 3.9% against a guidance around 4.2%. So, we are at the lower end as expected.

We have said and we confirmed it that we expect to be a little bit more positive in the second part. Part of it could come from the pricing benefit that I mentioned. Let's not overdo it either. We want to be reasonable. Let's not forget either the fact that we have more favourable comps coming in, in the latter part of the year, and I would mention one factor, but there is more than one, which is Indian noodles because, as you know, we had zero sales of Indian noodles in the second part of 2015. But once again, we confirm our guidance, which is at the same level as last year, where we were at 4.2%. We are not raising the guidance. I don't want any misunderstanding there.

<b>Questions on;</b>	<b>China and Yinlu Maggi Noodles in India</b>
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**Jon Cox, Kepler:**

Yes. Good morning, guys. Two questions from my side. First of all, on *Yinlu* and the situation in China, can you give us a bit of an indication of what you're trying to do there to actually get a bit of an improvement? Are we seeing similar strategy to what you did in North American Frozen? That's the first question.

Second question, just on the *Maggi* India noodles. Can you give us a rough idea where you actually are in terms of sales? Are we back to 50% to where you were a year ago? Just again give us some sort of indication. Thank you.

**François-Xavier Roger:**

Yes. Thank you, Jon. On *Yinlu*, I think that you said it actually. What we are doing is exactly the same as what we have done in the U.S. with Frozen Food where we have renovated and innovated in the category which in all aspect of the product mix from communication to packaging to formulation and so forth. You saw that in the U.S., it has proven to be very successful. The same happened in China, which is exactly what we did was *Nescafé* and with ready-to-drink. The same happened with our Confectionery line as well *Hsu Fu Chi*, and we have been successful with these two examples as well in China.

*Yinlu*, we did part of it, and the results are still expected to come but they didn't come as quickly as we expected. So, we are doing further renovation, further innovation and we will launch some new products in the next coming weeks again. So, we had mentioned already three of these cases, which have been successful. *Yinlu* is not where we would like it to be, but we are optimistic of the fact that pushing further we should get there.

In Indian noodles, you remember that we launched back the products within last year. So, we had the quickest return of magnitude of markets, five months after the ban. We have done a very good work to introduce *Maggi* with our partners and vendors, and supplier.

We did a lot of communication with some campaigns, which are proven to be very effective and we have regained market share since launch. We are not obviously at the level where we were before the crisis, but we are gaining a lot of tractions and we are going to launch new variants soon.

So, we are optimistic and we should start entering in Q2 in the middle of the quarter with obviously a favourable set of comps because we have no sales from, I think, mid-April last year.

<b>Questions on;</b>	<b>US Confectionery Business Galderma – Nestlé Skin Health Emerging Markets</b>
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**Jean-Philippe Bertschy, Vontobel:**

Good morning, gentlemen. The first one would be on the Confectionery business. I was surprised to see a flat growth as you're mentioning that Russia, which is a key market was doing fine and some markets in Europe as well. So, I guess this is the U.S. Confectionery business, if you can maybe add some comments here and if you're really sticking to that part of the business or if you would like to divest some of the non-strategic brands, you were

mentioning at the Investors Day in Boston two years ago.

And the second one would be on *Galderma* on Nestlé Skin Health. You were mentioning good growth after the pricing issue last year, if you could maybe share with us growth of Nestlé Skin Health between pricing and volume.

And maybe another one on the Emerging markets. You were mentioning an acceleration, I think, François, you were mentioning that versus Q1 last year. But, I think, it's a deceleration versus the fourth quarter last year and you were not speaking RIG versus pricing last year. This is the first time that you're doing that right now. Maybe if you can share with us the RIG and sequential developments in the Emerging markets.

**François-Xavier Roger:**

Okay. Thank you, Jean-Philippe. I'll start with the Confectionery question. Actually, our business is growing in Confectionery. The pricing has slowed down because we had less pricing in Emerging market. And volume-wise, okay, we are slightly positive and we expect to be at a better level in the future. That being said, it is essentially driven by two factors. One is Brazil. With the slowdown of the economy, we saw a clear slowdown of volume in Brazil. You know that the economy is going down significantly. So, it put some pressure on our volume growth there.

And there is a technical in impact in China with the timing of Chinese New Year. It is actually a little bit earlier this year, which mean that part of the normal pre-season loading happened a little bit earlier which means a little bit in Q4 last year and a little bit less in Q1. But *Hsu Fu Chi* is doing actually very well. I want to mention as well that we continue delivering very good results with *KitKat* across all geographies. So, no specific concern on Confectionery.

On *Galderma*, the business is healthy. It's growing at double-digit. What happened in Q3 last year was one-off item, so it did not impact at all the fundamental health of the business and we continue to deliver double-digit top-line growth there. The Nestlé Skin Health business is clearly accretive to Nestlé overall.

Moving into Emerging market, we see an acceleration of the RIG in Emerging market which we are happy with, but as I mentioned earlier, we saw some deterioration of the organic growth which is coming from pricing. Pricing is moving down as well, not only in the west but in some markets. I would like to mention something because it's not always perceived as such but if you look even at inflation in China, it has also lost something like 3 percentage point over the last four years, inflation in China. So, we are not in a deflationary environment yet but we are basically in China with zero inflation, so this, even if our business is not directly linked to inflation always but it does impact our business. So, in Emerging markets, we are pleased with the same development as what we see overall in our business, I mean, all categories which is an acceleration of RIG but some deterioration of pricing.

<b>Questions on;</b>	<b>Market Share</b> <b>Margins</b> <b>Positive factors for H2</b>
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**Warren Ackerman, Société Générale.**

Good morning, guys. Warren Ackerman here at Soc Gen. Can I ask about market share? You said that market share is your key KPI and you're saying that you've been improving your market shares. Can you tell us, on a global basis, what percentage of your portfolio is

holding or gaining share and which categories are gaining and which categories are still losing? That's the first one.

And then secondly, I know this is a Q1 sales call, but can you say anything on margins especially thinking about media and A & P spend. I noticed there's a very big increase in 2015. I mean, can you confirm that A & P will step up a lot less this year than last year? Maybe, is there any H1-H2 phasing on A & P?

And if I can just sneak in one final one. You've mentioned some other positive factors in the second half in terms of momentum. I think you mentioned India noodle comp. What other positive factors were you referring to? Thank you.

**François-Xavier Roger:**

Okay. I will let Steffen answer the market share question.

**Steffen Kindler:**

Yeah. Okay. Good. So, Warren, close to about 60% of the business and clusters, were holding or gaining share, and this has a continued improvement. This is a trend that we mentioned already at the full-year conference. It's a trend we mentioned to you guys when we met and this trend continues.

The positive highlights from a geographic standpoint are clearly Zone EMENA and Zone Americas. Zone Americas keeps improving, especially in the U.S., but also with gains in smaller markets. Highlights by product group. Clearly, PetCare, *Coffee-Mate*, Coffee, thanks to *Nescafé Dolce Gusto* but also ready-to-drink coffee. Soluble also in EMENA and AMS.

Infant cereals do well, Formula with Asia and Mexico, and as we mentioned before, Frozen. Zone AOA is stabilizing, but here, as François mentioned earlier, we still have the impact from India. And also, we have an impact from *Yinlu*.

All right. So, that's market share.

**François-Xavier Roger:**

Warren, your question on media. So, indeed last year, we had an increase in terms of, it's not media by the way, it's marketing spend because some of it can be linked to promotional activities. We have the same in Q1, as you said. I mean, we are talking mainly of sales. So I don't want to start talking too much about the P&L. That being said, we don't – so I won't comment, but the only comment I can make is that we confirm our guidance, which means that even if we increase our marketing spend, there is a certain likelihood that it will increase. Then, we commit that we have to free up the resources in other lines of the P&L to make sure that we deliver an increase on the bottom line because this is part of our guidance and commitment.

Your last question was about the phasing of our sales. I mentioned Indian noodles indeed because in a little bit more than a month, we will be in a positive comps situation. There are other factors. I mentioned pricing with some currency-linked pricing in Emerging market. I mentioned Brazil and to a certain extent Russia. I could mention *Beneful* as well because we start seeing some favourable comps with *Beneful* as well.

And the last one, which is quite significant, is this one-off adjustment that we had in Nestlé Skin Health in Q3 last year, which had an impact of about CHF 70 million both in the top line

and bottom line, and we won't have this one-off impact this year. So, it's going to help again in H2.

<b>Questions on;</b>	<b>Nutrition in China</b> <b>Trade Promotion Strategy for Key Categories in US</b>
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**Eileen Khoo, Morgan Stanley:**

Good morning. Good morning, gentlemen. I just have a couple of follow-ups. The first one is on Nutrition. Can you just give us a bit of an update on what's happening in China? I think last quarter you said that your growth was trailing the overall growth in e-commerce? Can you talk a bit about what you're doing to increase your presence there, as well as the new brand launches you've done and the impacts of the regulatory changes that we're seeing in that market. That's the first question.

And then, the second one is on the U.S. A lot of your competitors have talked about dialing back on trade promotions, could you give us some colour on your strategy there for your key categories in the U.S.? Thanks very much.

**François-Xavier Roger:**

Okay. Eileen. On the Nutrition side in China, so the Infant Formula market remains attractive. And we are very pleased to be the leader there. Wyeth continued to grow and grows well, thanks to *Illuma*. You remember that I mentioned last year that we reached CHF 650 million of sales last year while this brand did not exist four-and-half years ago, the growth momentum continues with this premium brand and premium segment. We gained market share in China, so we are pleased with that. And we, as a consequence drive growth essentially through innovation, premiumization, and differentiation.

You were mentioning the regulatory framework. As you know, the market is significantly unregulated in terms of channel with imports mainly coming from Europe. It's not covered by tax. It's quality control may not be always there. And there is even an issue in some instances of formulas which are not compliant with local regulation. So, as you know, we have always clearly stated that we have been very careful to engage in this unregulated channel. The government has started to take concrete action to regulate this channel going forward, starting with taxation, but it might go beyond that. And we are actually, we have a positive view on the fact of regulating this markets.

You asked a question on the U.S. on trade promotion. It is true that there is a certain level of trade activity. That being said, we have clearly been very careful in limiting the number of our products sold under promotion. So, I would say that we had quite a lot of promotion in the past. We have a little bit less today. So, we are really focusing on building value for consumers in terms of benefit and innovation. This is largely what we did, for example, with the renovation and innovation with Frozen Food. This is what we do with *Coffee-mate* and what we do with *Natural Bliss* for example moving into the natural space.

So, it is less about trade promotion. There is still a lot because the structure of the market is strong in that regard. But we tend to do less than in the past.

<b>Questions on;</b>	<b>Pricing in Latin America and Russia</b> <b>Disposals</b>
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**Adam Spielman, Citibank:**

Hello. Thank you very much. I have two questions. You said earlier in this call that you're thinking of taking pricing in Latin America and Russia perhaps later this year to reflect the fact that in local currencies commodities have gone up. But I'm wondering why you're thinking of doing that now given the fact that actually the currencies in both Brazil, for example, and Russia have strengthened recently?

And I suppose my question is informed by the fact that Unilever which as you know reported today took significant pricing last October. And I'm just wondering why it's taking so long for Nestlé to get around to the idea? So, that's one question.

The other question is simply on my numbers, there was more disposals than I had expected. And I think that's mainly in Other as I try and do the analysis. But I was wondering if you could just highlight what contributed to the fact that there was a 1% impact from disposals in your reported sales line. Thank you.

**François-Xavier Roger:**

Okay. Adam, I will take the first question on pricing. You're absolutely right. As far as Russia is concerned, we did actually put some price increase last year already. There is a little bit more coming but to a lesser extent, which is what I said earlier, that to a lesser extent in Russia.

In Brazil, we hardly had any price increase last year and we are just really starting now. The main reason for putting price increases now is that the Real has gone down by almost 50% against the U.S. dollar. But, as you know, there is always a timing impact to a certain extent between the currency impact, because we have inventory, because we have hedging, and we have supply contracts which last for some time. So, there is not always a necessary need to reflect immediately, at the time that the currency moves up and down, to reflect it in our sales price. There might be a time delay.

And inflation, it's the same story with inflation. Inflation is really starting to pick up as well. Inflation was relatively low in Brazil last year but it starts to get close to 15% already today, which means that part of our cost structure as well; salaries that we paid, local services that we buy locally, are starting to increase. So I would say it's more a phasing issue than anything else. I will let Steffen answer on the disposal side.

**Steffen Kindler:**

Yes, that's quite easy. So, the biggest one, almost two-thirds of that is *Davigel* and then another important one is *Lotronex*, and then some smaller ones like Ice Cream in South Africa, Mexico, and *La Cocinera* in Spain. But the big one is really *Davigel*.

<b>Questions on;</b>	<b>Strength in Beverages Category</b>
	<b>Regulatory Changes in China</b>

**Martin Deboo, Jefferies:**

Yes. Morning, guys. Just two quick questions from me. You have a pretty decent quarter in Coffee and François-Xavier, you called it out and touched on it, but I would just like a bit more colour, if I may, on what led to the strength in Powdered and Beverages. Obviously, what lies behind this is the debate we had about Q4 about your competitor in that area, so it seems like good news in that context.

Second one, I just wanted to do, just go over the ground again Eileen touched on in terms of regulation in China. Do I take it that you're saying that you view the Chinese regulatory changes positively because you think it's going to shift sales into the local retail channel, is that what you're saying? I just want to understand your view on what's happening in China baby milk. Those are the two. Thanks.

**François-Xavier Roger:**

Okay. On Coffee, so you are right, we have the strong momentum in Coffee. This is largely the outcome of the fact that we have invested behind our brands in terms of innovation as well. So we see that the *Nespresso* is doing well, as I mentioned, and we are very pleased with the development in the U.S. with the *VertuoLine* range.

*Nescafé Dolce Gusto* is growing still strongly. We are in the range of something like 20%, which is Europe and Latin America. And even *Nescafé* is doing well across geographies. So we clearly grew much stronger than the market. Once again, and this is the same for most of our product ranges, the good stuff is driven by RIG, which we are pleased with obviously.

Moving to the regulation in China, yes, we see that as positive, first, positive for consumers, because I think it is important that all products that are sold in that space be compliant with local regulation, and that quality has to be there in the market. So do we see that as positive, I didn't say that we are seeing it positively if it drives local production or local channels. Imports are not necessarily negative. It has a role to play in instances. What is a little bit more of a concern to us are imports that are not complaint or that are not regulated. And it takes different shapes and forms, but whenever you have consumers in China using products whose packaging is written in a European language, for example, is not the right way to proceed for Chinese mothers and their babies, obviously, as an example. So, it's less an issue of local production and local versus import than an issue of compliance with regulations.

<p><b>Questions on;</b></p>	<p><b>Growth for Q2</b> <b>Nestlé Nutrition Outlook</b></p>
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**Patrik Schwendimann , ZKB:**

Good morning, François-Xavier. Good morning, Steffen. You had mentioned an acceleration of growth in H2. So, as a best guess, would you say quarter two will have a similar growth like quarter one? That's my first question.

Second question regarding Nestlé Nutrition which had a RIG of 2.2% in the first quarter. What are your best guess expectations here for the remainder of the year and also for the midterm in terms of growth? Thank you.

**François-Xavier Roger:**

Well, we don't guide on quarters. So, I'm not going to comment on Q2 more specifically. I just mentioned that we expect the growth to be somewhat a little bit back-loaded in the latter part of the year, but I didn't mention specifically about Q2.

Nutrition outlook. Once again, we are focused on innovation. And innovation is really what should drive growth and this is what we have been doing. And *Illuma* is a good example of it. And we have had good results with other products that we have launched, not only in China because we talked a lot about China, but it happens as well in Indonesia, it happens in Mexico as well. So, what – I would say, if there was a concern, it is more linked to the lower

pricing level, which is essentially linked to low commodity pricing and low milk prices. So, there is some hope that milk prices might improve and support a little bit pricing in that category. But we were pleased, once again, by the good volume developments in Q1.

<b>Question on;</b>	<b>US Performance</b> <b>Water in the US</b>
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**Alain-Sebastian Oberhuber, MainFirst:**

Yes. Good morning, François-Xavier and Steffen. Alain Oberhuber with MainFirst. I have two questions. Could you go a little bit more into the U.S., Frozen into the other categories? I'm more interested in *Stouffer's* and in particular, Pizza as well? And then, the other question is regarding Water. It was a good development. Could you talk a little bit more about the U.S. specifically, and about the premium products in the U.S.?

**François-Xavier Roger:**

Okay. Alain, I will let Steffen answer the question.

**Steffen Kindler:**

Yeah. Sure. So, you asked about the U.S. This is clearly with positive RIG and organic growth. We have market share gains. We said that before. Food and Beverage has very good growth. Frozen is driven by the innovation and the new communication campaigns: strong *Lean Cuisine* and good *Stouffer's*, and also, *Hot Pockets*. Ice Cream is driven by the *Häagen-Dazs* super premium and snacks especially in the *Outshine*, again, thanks to the innovation here. I mentioned *Outshine* and our communication campaigns.

PetCare is doing very well, driven by dry cat, cat litter, *Beyond*. And we mentioned before the impact from *Beneful*. You know that that started roughly in March of last year. So, the first quarter was still impacted on a group level. We still have some roughly 20 basis points impact from *Beneful*. But as of March, we see this is really picking up because we start to lap the comps here as well. And then *Coffee-mate* is a product that keeps growing very nicely at mid-single digits, year-after-year, driven by new flavours, by new packaging, by new ingredients. This is really a prime example of innovation and renovation driving growth. So, overall the U.S., basically a set of highlights, really.

**François-Xavier Roger:**

Water. So, we have double-digit growth with international brands in the U.S. and we have a strong momentum as well with our franchise of local brand. As you know we have a set of local brands which are different by geographies and experiencing strong momentum. The category itself is very dynamic. As you know, Water, by volume, exceeded carbonated soft drinks in the United States last year. So, obviously we are playing in the right category with the right mix of international brands. Sparkling. By the way, sparkling also happens to be the fastest-growing segment of the category itself. So, once again, we are well positioned there with the combination of our local brands.

So, we are, from time to time, even limited by capacity but we are always very conscious of the need to manage our CapEx and manage returns properly. So, there is a point where we don't want to go too far in terms of pricing to make sure that we get a decent return. We can't always fight against private labels at a certain price point. But globally, we are very happy with our water development in the U.S. as well as in other territories.

**Steffen Kindler**

Thank you very much. So, that was the last question. And that get us to the end of today's call. Thank you very much for attending Nestlé's three-month sales conference this morning.

As usual, if you have more questions, you know where to find the Investor Relations team or for people from the press who listened in, you know where to find our media team. And with that, I say bye-bye. I look forward to talking to you again on the occasion of our half year results announcement later this year.

Thank you very much and bye-bye.

**END OF TRANSCRIPT**