2016 NINE MONTH SALES CONFERENCE TRANSCRIPT

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Speakers:

Paul Bulcke, Chief Executive Officer, Nestlé S.A.
François-Xavier Roger, Chief Financial Officer, Nestlé S.A.
Robin Tickle, Head of Corporate Media Relations, Nestlé S.A.

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Good morning ladies and gentlemen.

Welcome to our 2016 9 Month Sales 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 or, if you are watching the webcast, you can choose the right language by clicking on the respective link on the webcast page.

On the podium we have our CEO Paul Bulcke and our CFO François-Xavier Roger.

Slide: Disclaimer

I'll take the Safe Harbour statement as read. Now let's start. Paul, you have the floor.

Paul Bulcke, Chief Executive Officer, Nestlé S.A.

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Good morning, ladies and gentlemen.

First of all, welcome to our 2016 nine months sales conference. Also welcome to all of you who are following this conference through the webcast.

You saw the figures which we published this morning.

Slide: Nestlé Group Highlights

Over the first 9 months of 2016, we achieved sales of 65.5 billion Swiss Francs, with organic growth of 3.3% and real internal growth of 2.5%.

In this soft trading environment which is marked by deflation and low raw material prices, we have continued to privilege volume growth, which is at the higher end of the industry and that in both Emerging *and* Developed markets. At the same time, our pricing remained soft but is increasing.

Our growth was also broad-based across categories which allowed us to gain or maintain market share in most of our businesses. We are also making good progress in addressing our challenges and driving our different initiatives amidst this generally softer trading environment.

We also continue to invest for the future in line with our strategy.

We maintain a high level of brand support while continuing to build an innovation pipeline, both globally and locally. At the same time, we drive more operational and structural efficiencies through standardising, sharing and scaling more and more activities above market.

Now for the full year and considering the current softer environment, we expect Nestlé to deliver organic growth of around 3.5% with improvements in margins and underlying earnings per share in constant currencies, and increased capital efficiency.

But let me now hand over for more details to François.

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

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Thank you very much, Paul, and good morning to all.

Slide: Volume-driven growth in challenging environment

In the first nine months of 2016, our sales reached CHF 65.5 billion, RIG stood at 2.5%. I remind you that RIG is a combination of volume and mix. OG, that's 3.3%. We had a negative foreign exchange deviation of minus 1.7%, and net divestments M&A had a minus 0.6% effect. As a consequence, our reported sales increased by 1%.

In the context of deflation and weaker consumer demand, we deliver a solid RIG and we gain or maintain market share in almost 60% of our business cells. This reflects the resilience of our portfolio and our strong execution capabilities in a difficult context. Pricing remains low, but with some sequential improvements since June mainly coming from Brazil and Russia.

Slide: Broad-based growth despite deflationary environment

First, looking at our performance by geography, I remind you that this split includes our Zones and our GMBs. Our growth has been broad-based across three Zones. In Americas, RIG was 2.3% with OG of 4.8%. EMENA had RIG of 2.4% with OG of 2.1%. And finally, AOA had RIG of 3% with OG of 2.5%.

This is relatively consistent with the shape of growth that we saw in H1. The main variance come from the half-year, comes from Zone Americas where we re-balanced our growth from volume to value mainly in Brazil.

Slide: Increasing RIG in Developed *and* Emerging Markets

Looking now to the shape of our growth between Developed and Emerging market.

Developed markets account for 58% of group sales, while Emerging markets are accounting for 42%. Organic growth is pretty consistent with what we had in H1, with Developed markets growing 1.9% and Emerging market by 5.3%.

The notable change is that pricing improved in Emerging markets, while RIG was softer and the biggest driver of that was Brazil.

In Developed markets, the dynamic was more consistent, with positive RIG driven by innovation and continued negative pricing in a deflationary environment. And we don't see really an improvement in pricing in Developed markets in the short term.

Slide: Zone AMS

Moving to our businesses by reporting segment, and I will start with Zone AMS. We achieved sales of CHF 18.8 billion, OG of 4.5% and RIG of 1.6%. In North America, the environment remains deflationary, reflecting both low commodity pricing and pricing pressure in the market. RIG remains solid but decreased slightly from H1.

PetCare and *Coffee-mate* remain as key growth drivers. Frozen food continue to grow well with further market share gains. After a complete overhaul of the marketing mix, Frozen has reached a normalized level of low- to mid-single-digit growth. Confectionery in the U.S. remains difficult with pressure on the entire category.

Latin America is still a mixed picture. Mexico is one of the leading performers of the group with good growth across all categories. Brazil remains positive with a different growth profile. We implemented some price increases in recent months, mainly in Dairy but we did it as well in other categories like Cocoa and Malt Beverages, Chocolate and Coffee.

Our price increases have had an impact on volume in the short term, as we anticipated, as the trade had increased their inventories before the price increases. Volumes started to stabilize towards the end of the period, but we need to remain cautious on Brazil because the environment is quite unstable at this stage.

Slide: Zone EMENA

Moving now to Zone EMENA. We have sales of CHF 12.2 billion, 2.2% of OG and 2.7% of RIG. The momentum differs across the three sub-regions of the zone. But overall, we continue to see good RIG momentum driving market share gains across geographies.

Going to sub-region and I will start with Western Europe, pricing remains negative with deflation across geographies. We had good RIG performances in France, in Germany, in Southern Europe, and we talk there about Spain, Portugal and Italy. The UK has been notably more challenging since the half-year, mainly in Confectionery and Coffee. By product category in Western Europe, *Dolce Gusto*, PetCare, and Frozen pizzas were the key growth drivers.

Central and Eastern Europe had both positive RIG and pricing. Overall, we continue to gain market share in the region. Russia remains a leading performer with double-digit growth driven by both RIG and pricing. However, Poland, the Baltics and Ukraine had been more challenging. PetCare continues to do exceptionally well in the region with strong double-digit growth. And *Nescafé* Soluble Coffee is still enjoying a very good growth as well.

Middle East and North Africa, overall, maintained positive results but with a mixed picture by country. Turkey remains a key growth driver with double-digit growth along with the North and East Africa regions. The Middle East is more challenging and the ongoing instability has impacted our ability to supply countries like Iraq, Yemen, or Syria.

Finally, in EMENA, we are happy to confirm the start of our operations at *Froneri*, our new Ice Cream joint venture. We will move to equity accounting for this business from the 1st of October 2016, and we are very excited about the significant potential for value creation through this partnership.

Slide: Zone AOA

Moving now to Zone AOA with sales of CHF 10.6 billion, 2.8% of OG and 2.7% of RIG. The majority of markets in AOA are showing good and sustainable growth with meaningful market share gains. This includes some categories in China but as expected, *Yinlu* remains challenging and diluted the growth acceleration of AOA since June.

Southeast Asia has maintained its high single-digit growth. Most markets performed strongly from Indonesia to the Philippines and Vietnam. The strong performance was driven by *Milo*, Coffee, Ready-to-drink Beverages and *Maggi*.

Sub-Saharan Africa continue to grow well across most categories especially with *Maggi* and, overall, the affordability range, what we call PPP. Within the region, countries like Nigeria, Angola, Ghana, and Ivory Coast are the highlights.

And as far as Developed market is concerned, Japan's solid growth continued to build on innovation and premiumization mainly with *Nescafé* and *KitKat*. Oceania is still under pressure, mainly from pricing in a very challenging trade landscape with intense retail competition.

Moving to India. We have made a strong return to growth in the market. *Maggi* noodles have continued to gain market share since the relaunch, and we are now at 58% market share. And sales are back to about 80% of the pre-crisis levels. We're ahead of expectations and our strategy to continue on engaging with consumers, even at the heart of the crisis, is really paying off now.

Looking in more details at China. The market remains rather challenging. The Food and Beverage categories in which we operate are basically flat in terms of growth. But we have performed well in Coffee and Chocolate, as both had double-digit growth. As we said at this year's Investor Seminar in May, the turnaround of *Yinlu* will take time, as trading conditions remain difficult.

Slide: Nestlé Waters

Now, let's move to our globally managed businesses, and I will start with Nestlé Waters. We had sales of CHF 6.1 billion with 4.2% of OG and 4.4% of RIG. Nestlé Waters delivered solid growth in all geographies, with strong growth in Emerging markets. We also saw solid growth in Europe in spite of the very challenging comparatives. The U.S. grew well, despite the fact that we lost some sales from the destruction of one of our factories in Texas by a tornado earlier in the year.

The international premium brands, *Perrier* and *San Pellegrino*, continued to drive an attractive performance across markets. *Nestlé Pure Life* remains accretive to growth for the Water business and there were strong contributions from many of our iconic local brands, I will mention there, *Poland Spring* in the U.S., *Buxton* in the UK, or *Sta. María* in

Mexico.

Slide: Nestlé Nutrition

Moving to Nestlé Nutrition, we had sales of CHF 7.7 billion, 1.3% of OG and 0.8% of RIG. Our modest growth reflects the category dynamics in our two largest markets, namely China and the U.S.

In China, our biggest market, the category is basically flat. Low dairy prices and the challenging competitive environment, we have there more than 100 players, continue to impact the market. We start seeing as well some inventory destocking in the trade ahead of the new regulation that we've introduced at the beginning of 2018. Premium and mainstream segments have taken the largest hit with significant price reductions.

We are more focusing on the Super Premium segment, and our Super Premium brand *Illuma* continued its excellent growth at over 30% year-to-date, confirming our leadership in the segment.

Overall, in China for Nutrition, we are gaining market share, and we are consolidating our leadership position. Whilst we are losing a small amount of share in offline channels, we are making strong gains in the online B2C channel.

Moving to the U.S. for Nutrition, we experienced some pressure from the beginning of the year following the transition to new packaging for meals and drinks, from glass to plastic. We also had some supply issues with pouches, but this is largely behind us now. And we are starting to regain positive momentum in the U.S.

We had good performances in a number of other markets across Latin America and Asia. I would mention there Brazil, Mexico, the Philippines and Indonesia, just to name a few. However, the social and political instability in the Middle East has impacted our ability to supply the market.

Slide: Other Businesses

Let's move now to our Other businesses which included Professional, *Nespresso,* Nestlé Health Science and Nestlé Skin Health. We have sales of CHF 10.1 billion, OG of 4.6% and RIG of 4%.

Starting with Nestlé Professional, this division grew in both Emerging and Developed markets, although Europe continues to be a little bit tough. We have announced earlier this month a change in the business structure of Nestlé Professional, which will be effective from the 1st of January 2017. We will be merging Nestlé Professional into the Zones with the support of the strategic business unit. We believe the new structure will allow us to better leverage market-specific knowledge and platforms. We will restate our group accounts next year in order to allow comparison.

Moving now to *Nespresso*. *Nespresso* maintained its good growth momentum across all regions. The geographic expansion continued. We opened 21 new boutiques across the world since the beginning of the year. Europe's growth remains solid and resilient in the context of an increased competition on higher penetration rates. And we have seen a strong momentum in the U.S. driven by the *VertuoLine* system. Talking about the *VertuoLine* system, we have now even launched this system in France at the beginning of this month. And we also see double-digit growth for *Nespresso* across AOA and Latin America.

Moving to Nestlé Health Science, which performed well. We have seen double-digit growth in our consumer care business driven by *Boost* and *Carnation Breakfast Essentials* in the U.S. We rolled out *Meritene* in Europe and it is going very well, and we have a strong pipeline for further geographic expansion for our Consumer Care franchise globally. Medical Nutrition also delivered good growth, driven by our allergy portfolio mainly in China.

Moving to Nestlé Skin Health, our consumer business has performed well driven by the *Cetaphil* and *Daylong* lines. Aesthetic and correctives has also gained momentum with market share gains in the U.S. The RX business, the prescription business is more complicated with some pressure from generic substitution over all product categories as well.

Slide: Broad-based growth across product groups

Moving now to product categories. I will not spend too much time here because we cover most aspects as part of the Zones on globally managed businesses. We'll just cover quickly Powdered and Liquid Beverages that had a strong and consistent performance, driven by continued good growth momentum across *Nescafé Dolce Gusto*, Soluble Coffee as well as *Nespresso* as I just mentioned. Overall, for Coffee, we gained further market share during the period.

Waters we have discussed already. Milk product and Ice Cream, the performance of this line is impacted by *Yinlu*, which we have already discussed. In terms of dynamics since June, pricing has accelerated whilst RIG has slowed down, which largely reflects the pricing action that we had in Brazil that I mentioned earlier.

Nutrition and Health Science include Nestlé Nutrition, Nestlé Health Science and Nestlé Skin Health and we have already talked about it. So, I won't repeat myself.

Prepared dishes and Cooking aids, it improved since H1 with the successful relaunch of *Maggi* noodles in India. And we are also seeing sustained good results in U.S. Frozen, particularly with *Lean Cuisine* and *Stouffer's.*

Confectionery remains under pressure with negative RIG. We faced challenges in the mainstream chocolate market in the U.S. as well as some softness in Brazil and also in the UK. *KitKat* continues to do well globally. We are addressing our challenges in Confectionery through innovation and marketing support behind our brands.

PetCare, to finish, has maintained its good growth momentum with strong contribution from Latin America and Europe, particularly Eastern Europe, and with very good market share gains across Zones. The U.S. continues to perform well for PetCare and we have recently relaunched both *Beneful* and *Dog Chow*.

Slide: Summary

In summary, we feel these results demonstrate our resilient portfolio and strong execution, which is supporting real internal growth momentum in a context of weaker consumer demand globally. We continue to make further market share gains. And in the current climate, this volume-driven growth is unique and differentiating in the industry, and it reflects our long-term value creation model.

By growing volume and premiumizing, we are creating substance and bringing relevance to both our consumers and to the trade. Pricing does remain low due to the deflationary environment, but we saw some improvement since H1.

For the full year 2016, considering the softer environment, we now expect to deliver organic growth of around 3.5%, improvement in margins and underlying earnings per share in constant currency, and increased capital efficiency.

Now, I will hand over to Paul for his final remarks.

Paul Bulcke, Chief Executive Officer, Nestlé S.A.

Slide: Title slide

Thank you François.

Well, these figures reflect indeed a global soft trading environment but our volume growth is a point of differentiation.

What these figures also reflect is the fundamental resilience and strength of our portfolio… the fact that our growth is broad-based. We grow both in Emerging *and* in Developed markets. We grow consistently across a wide range of different categories and businesses.

But what they don't fully reflect "yet" are the many innovations, actions and initiatives that we have been taking and are taking to strengthen our portfolio, where we explore and invest in new avenues for future value growth and the many initiatives and programmes that we are implementing to be leaner and more efficient and cost effective as a company.

Slide: 150 Years Nestlé

That is what we have been doing through our 150 years history, permanently challenging ourselves, reinventing ourselves… so that we can compete successfully.

And that is again what we are doing today, challenging and reinventing ourselves. Yes, we have to care for the short term and we have to perform but at the same time we have also invest and make choices to build for the long term.

These are important times with so many challenges and opportunities converging, times to do the right things to shape the future and to set up our company for long-term success.

And to do this, innovation, it's all about innovation. Innovation is at the core of everything we do. It starts with innovating and renovating what we have, our products and brands. Formulating and reformulating thousands and thousands of products each year, adding value to them and adapting them to the evolving expectations of consumers and society. Our product innovation is broad, it is diverse, it is global and local, and it leverages our unique R&D capabilities.

Often these innovations are small incremental improvements, but it is also about putting resources behind bold and disruptive ideas and giving them the time to develop. Like we did with *Nespresso* 30 years ago. *Nespresso* has evolved to what it is now today: a global iconic brand present in almost 70 markets and countries, completely redefining how we enjoy the best cup of coffee. And with the new *VertuoLine*, which we are now extending from the US to Europe, we are bringing a new dimension to it.

The same goes for *Nescafé Dolce Gusto*, a global beverage system now, that we built in just 10 years, and also present in almost 90 markets already.

And that goes also for *Purina Beyond* in Petfood, *Illuma* in Infant Formula, or the roll out of *Boost* and *Meritene* to answer the needs of an ageing population, and I could go on.

But innovation is not just in products and systems or services. It also about new businesses and business models like our joint venture *Froneri* that has just started. Here we are combining our Ice Cream business with R&R to create a leading player with presence in more than 20 countries. It's all about innovation.

It is also innovation in the ways we work, how we organise ourselves. That is what *Nestlé Business Excellence* is all about. Over ten years ago, GLOBE gave us a significant competitive advantage. GLOBE was about processes, systems and data. Now, Nestlé Business Excellence is taking this all to the next level. It is redesigning our processes and structures for the future. Simplifying, and on average, cutting the steps involved by half. It is about realising the benefits of scale and skills, and rewiring completely how we work as a company.

We are organising ourselves, through Nestlé Business Excellence, in a way that frees up our markets, our operations in the countries, to focus on what matters; consumers and customers, renovation and on generating demand. It is a multi-year year journey and we are half way through.

This is also linked to how we further leverage our procurement above market level, how we revisit our global industrial set-up and other iniatives. We are all about innovation.

Also innovation with digital where we are going beyond communication and e-commerce by building digital ecosystems, engaging and working with all relevant players, global and local, small and big.

Finally, innovation is also about pushing the boundaries, the boundaries of nutrition. This is what we are doing through our new platforms Nestlé Health Science and Nestlé Skin Health. These business are shaping entirely new opportunities that entail a fascinating promise of growth and value creation.

Ladies and gentlemen, Nestlé is about consistency. Nestlé is about continuity. Permanently balancing; taking care of the short term while at the same time building and investing for our future. This has characterised us during 150 years. That is exactly what we are doing today.

As I said these are special times... times where we don't want to compromise and that in order to get even stronger.

Thank you very much for your attention.

Robin, over to you.

Q & A Session

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

For those of you on the call, if you want to ask a question, please press star 1 on your phones to join the queue. If you want to withdraw your question, please press star 2. Please limit yourself to two questions. But now, let's take the first question from the call. Warren Ackerman of the Société Générale.

Questions on:	**Slowdown in Q3** **FY Guidance, Pricing**

Warren Ackerman, Société Générale:

Good morning, everybody. It's Warren Ackerman here of Soc Gen. Two questions, please. The first one is actually for François-Xavier. If I take you back to the first half results, you were confident that you could get back to the Nestlé model of around 5% or close to 5%. And here, we are close to 3% in Q3, so a marked slowdown rather than an acceleration. My question is, were you not too bullish back at H1, what has been the biggest variance versus your expectations in Q3? I mean, you already knew that China and Brazil were very tough back then. Have they got materially worse or has category growth rates slowed materially in Q3?

And then the second question is on pricing. I mean, commodity prices are now turning in sugar/dairy, but you're still saying you don't expect any improvement in pricing in the short term. What does this say about Nestlé's pricing ability globally? Thank you.

François-Xavier Roger:

Thank you, Warren. I will answer the first question. In H1, we said that we expected, indeed, the growth acceleration in H2, which was mainly driven by pricing which actually happened because we implemented pricing in Brazil, in Russia and in other geographies

We expected as well to get an acceleration coming from easier comps because we had a one-off adjustment last year, it happened as well, because of innovation, which happened as well, and portfolio management, but portfolio management is something that will happen in Q4 because this is linked to the *Froneri* deconsolidation.

We had said as well that, at that time, that there were a couple of risks. One of them was the impact on volume in the short term due to the price increases that we have put through. Some of it happened and especially in Brazil. That is why at the end of the period in Q3, we started to be back to positive volume growth in Brazil. So, there was not really a negative elasticity. As I've said earlier, there was a little bit of piling of inventory maybe by the trade before we put through the price increases and then some adjustments in July and August, but we were back to the normal situation at the end of September.

What I would say surprised us a little bit is a general soft conception across the region, which we didn't expect. And I think that through that, we can see that the growth is relatively fragile in the fast-moving consumer industry overall. I don't think it's only for us. I think it has been reflected as well in markets in general.

Moving to your second question on commodity pricing, we have seen, indeed, over the last two quarters, some increase in commodity pricing. It doesn't reflect fully yet in terms of pricing, because we have some inventory first and we have put in place some hedging. So, usually, there is a six to nine months delay between the commodity pricing in the market and the time when it impacts our P&L. So, I don't think that we can conclude anything at this stage in terms of pricing power. We are confident that we have good pricing power because of the strengths of our brands overall.

Paul Bulcke:

But on growth, it's true that I'm an optimist, I would not say bullish. And it's true also that the deflationary environment is deeper and lasting longer than we all would have expected.

Pricing, we backed off. We are privileging, through all the initiatives we have in innovation, volume growth because that is what sticks. We saw some pricing. We thought we had more pricing needs than, considering the deflationary environment, we actually have to apply. Combining these two things, is what has brought us where we are.

I would just want to stress, again, we have volume growth linked to the market share gains on the higher end of the whole industry, and that is what stays afterwards. So, yes, that's why we projected 3.5% for the full year.

Robin Tickle:

Thanks, Paul. The next question from the call is from Eileen Khoo, Morgan Stanley.

Questions on:	**Pricing and Market share equation** **Achieving 3.5% at the FY**

Eileen Khoo, Morgan Stanley:

Good morning, gentlemen. It's Eileen Khoo here, Morgan Stanley. I have a two quick questions. The first one is, actually, I suppose on the pricing/market share equation, obviously, you're talking about the fact that you're prioritizing volume and market share. But, I suppose, now that you're starting to take pricing, are you seeing that reverse? So, can you talk about that generally?

And then, secondly, when you talk about guidance being now around 3.5% for the full year, am I right in understanding that that implies an acceleration in the Q4, and if so, what confidence do you have that momentum will improve? Is it to do with the innovation pipeline that you alluded to earlier? Can you just give us the clarity on that? That would be great. Thank you.

Paul Bulcke:

Well, pricing and volume is always a thin line. You know why we always pricing is done locally. There's no such thing as global dimension or a global instruction of our company. But if you have a lot of efforts coming in; in innovation, a lot of brand support, et cetera, that has to reflect in your market positions and driving the categories. We have leadership in many, many markets.

So, it is, for us, to drive this categories in a deflationary, soft environment. That is what we're doing. That's where these market shares and volumes are coming into play. This is important to us. As I mentioned, that is what stays. When we do pricing, yes, you have certain effects. We saw that to a certain extent in Brazil where we had quite substantial pricing in certain categories. There you have certain adjustments. We have always a little bit upfront of pricing some retail actions, et cetera. But then, we saw it straightaway coming back. The strength of brands and the strength of the support behind our brands is what, at the end of the day, stays. As I say, it sticks. And that is what we are looking for.

François-Xavier Roger:

Just to be more specific, if I take the example of Brazil, we increased our prices significantly in June. That being said, we continued seeing our market share increasing in Q3. So, which means that we managed to handle it I think very well. But obviously, we changed the profile of our growth as far as Brazil is concerned from volume to value in Q3.

You were talking about Q4. The guidance for 3.5% this year is actually very close to where we are today, at 3.3%. So, we see some colour coming back from innovation, from pricing, obviously, but we want to be cautious in view of the conception slowdown that we noticed across the board in Q3 for us and for our markets.

Paul Bulcke:
And we saw that in the third quarter already some pricing that's going to be a part of that too. So, that's why we project 3.5%, around 3.5%.

Robin Tickle:

Okay. Thanks. But now let's take the first question from the room. Ralph?

Questions on:	**5-6% Long-term target** **UK Pricing**

Ralph Atkins, Financial Times:

Ralph Atkins from the Financial Times. Mr. Bulcke, it's your last press conference, I understand, as Chief Executive. Yet again sales are below the long-term target, you have 5% to 6%. Do you think this 5% to 6% long-term target is going to remain?

And second question on the UK, can you tell us what your intentions are with regards to pricing in the UK given the fall in the pound recently. How much is a *KitKat* going to cost in the UK? Thank you.

Paul Bulcke:

Well, you said, this long-term target of 5% to 6%. I say no, that's our ambition and that's something that we are building this company for, over time. These are now a few years of very, very soft trading environments and deflationary environment with the low raw material prices, et cetera. So, that's why we speak about a projection of 3.5% for this year.

But what matters to me is that it's on the higher end of the industry, especially on volumes. And I repeat, that is what matters. It's a relative game towards winning in the marketplace. And that too, as I mentioned before, is an innovation driver.

I think innovation, having initiative, driving your categories, that is what matters and that's where we invest. Also building the capabilities; coming out of this softer environment, that we all live with, as a much stronger company and not going for a short-term by-passes.

I think that's an obligation for the leadership of the company. That is what we're doing. So, we don't made these trade-offs so easily for growth for the future. So, this ambition stays.

Now, in the UK, that's a question that we have read quite a bit about. First of all, I want to say, pricing is done in the markets. So, pricing is done in the UK by our people there. And what they do is consider all elements. You referred to the fact that the devaluation may induce some need for... They're going to have to sort it out and to do that responsibly. That means seeing all other possible actions to absorb the maximum of the needs. We produce actually almost over 90% what we sell in the UK locally. So, there's quite a lot of local dimension that absorbs quite a bit of that need. I think *KitKat* is going to stay a very enjoyable great break, so I don’t see that, in the short term, turning differently.

Robin Tickle:

Next question comes from the call, Jon Cox of Kepler. Jon, you have the floor.

Questions on:	**Margin improvement** **Slowdown in Food & Packaged Goods**

Jon Cox, Kepler Cheuvreux:

Yeah. Good morning, guys. Just a question. Well, actually, I have two questions. One is a margin question. Obviously, you've got a lot of headwinds this year in terms of top line. You said that you would deliver more than, maybe we got used to in terms of margin. I think consensus is around for a 40, 4-0, basis point margin improvement this year. Are you comfortable with that currently? That's the first question.

And the second question really on sort of a slowdown in food or packaged goods you guys alluded to and something of a, I wouldn't call it a crisis within packaged goods, but a feeling that things have decelerated and they are unlikely to come back anytime soon. I'm wondering if you can just give your thoughts on that. What can you do as a leader in the industry to try and get growth going or is it you need to focus on more innovative products? It seems that a lot of small start-up independent or local players are winning share from the big packaged producers, which are maybe seen as producing not particularly healthy food. I'm wondering if you can just give us some thoughts on that. Thank you.

Paul Bulcke:

Well, what we say is that we have growth with margin increase and that combines many things. I don't pronounce on numbers as specific as that. I also believe in the continuum of year after year having margin increase, which is actually linked with our strategy more than just going after margin for margin. We also combine that margin increase with upfront deeper investments behind our brands. You have seen it over the last year. We have increased our brand support, supporting our innovation. We are investing more in R&D because I feel the differentiation and the drive, the engine behind growth for the future, is going to be new products, exactly answering your second question.

That is what's going to drive. We as market leader in many categories, have to do that. We see many areas in our portfolio that are growing very handsomely. That is basically through innovation. You mentioned smaller players finding angles. We have to cover these angles, too. And we can and we have – for example what we have done by re-launching our Frozen business in United States that is growing above our average.

So, these are the things we have to do. I don't feel that our industry per se is there to be low growth as an industry. I do see, if you think about what we have been speaking about, the millennials, how they value food much more in their lives, and for that, spend more on food, I actually see upside.

If you see the new venues we're exploring and investing in, they have still to come to bear the growth momentum that I definitely believe it's in there. In Nestlé Health Science, they're already accretive on our sales growth, well that is going to gain momentum over time. These are all dimensions that society is embracing, that consumers are valuing and going to make part of their lives and as such also buy products from. These are quite new connections that we, as a company, are making that are having and entailing a good promise of value growth.

Then you see the shifts in commerce. I tell you, we are living on an inflection point in society too, and the whole industry is adapting to that. You speak about the commerce, e-commerce and the digital ecosystems that are building up. It's not only commerce or only social media. It goes much beyond that. And that's why I say, these are ideal times. These are ideal times for a company like Nestlé to invest. So if you combine all that.

We are also increasing our efforts in adapting, considering these inflection points over our organization, Nestlé Business Excellence is part of that. This is not small. This is overarching the whole organization of Nestlé in all countries. This is really resetting, call it reinventing, challenging the structures we have today. This is rewiring – call it a fourth industrial revolution. At the end of the day, we are in the process, on that inflection point, of adapting, anticipating, structuring and investing.

So, that is all covered by the figures we're promising, but substantially more restructuring or building new dimensions into this company that are all covered by the same promise of higher margin. I think that is the quality of what we promise on the bottom line.

François-Xavier Roger:

Just maybe to complement what Paul said on the margin. So, we are committed to deliver our trading operating profit margin improvement this year. This is part of our model. This is part of our guidance. We just reiterated it. So, we will do it again this year. Be aware of the fact that our trading operating profits is after restructuring. And we are going to do more restructuring this year. We didn't do that much in the first half, but we will do more in the second half as part of the structural saving program that we have announced in our Capital Market Day a few months ago. So, we will increase restructuring this year, but we will increase, obviously, our trading operating margin after restructuring as it is part of our model and guidance.

Paul Bulcke:

Let me stress a point, Jon. Thank you for your question actually, because it goes beyond margin. We could sit here also and promise margin and say, let's have 100 basis points. I cut a little bit my support behind the brands, and we have actually added to it. We do a little bit less a here – a little bit less on longer term because at the end of the day, longer term or medium term, we can say we have brand momentum, so brand strength.

So, I'll tell you one thing. That is exactly what we should not do, because that creates what I call business anaemia or company anaemia. It's that balancing out. That is what we want to be as a company, balancing out this continuous delivering, because it is intrinsic to our strategy, added value and more efficiencies. That should reflect on the bottom line. But at the end also, continuous in investing, so that we have this fine balance of short, medium and long term. And I think that is what brought us here as a company. So, during now 150 years, this is an anniversary year, that is what we do now today. We can do that today because somebody did it in the past. Well I want whoever comes after to say the same thing. But you have to balance it out. Yes, you have to deliver today, too. That's what we call the model.

Robin Tickle:

The next question is from the call from James Targett of Berenberg. James, you have the floor. James? [No response] Okay. Let's take the next question from the room. John

Questions on:	**UK market development and pricing post Brexit** **Innovation driving growth**

John Revill, Reuters:

John Revill, Reuters. Good morning, gentlemen. A couple of points. I just wondered to Ralph’s point, could I have a little bit more colour on how you see the UK market developing in the future, post-Brexit, and also how will this affect your investments in the country. First point. And then secondly, you said that 90% of your products are produced in the UK but obviously, you still have to buy quite a lot of commodities to go into your factories in the UK. So the currency shock is going to have some effect. So, can you give us some kind of colour on effect of the currency shock, how that will affect pricing? I know you do it locally but there's got to be some kind of ballpark guidelines there?

And the secondly, you talked in very broad terms about innovation and things like that to drive growth, moving forward. Is there any kind of specific examples you can refer us to or give us a bit more specifics on how you can think you are going to get pricing back moving forward? Thank you.

Paul Bulcke:

Well, let first Brexit get some form and shape and definition because we all speak Brexit, I won't speak about Brexit until they have really landed what it means. The fact is we're going to see, we have invested quite heavily in the UK. So, whatever they export again the added-value they deliver is actually making them more competitive in that sense, and we export quite a bit to Europe from the UK.

So, we have an investment plan that is basically a long-term structure, so we're not going to start now revisiting all the investment we did and starting to readjust that. Let's first let the dust settle and give that some perspective. Investments are long-term commitments. So, we're not going to start doing short-term dimensions and corrections and decision-making on something that is for us medium, long term. Even more so as what I say before, let Brexit first gets some form and shape. Then, we do import, yes, we do. We have cocoa and coffee, very strongly. Again, that has to be seen how we fit and land that dimension in the UK.

There's many forms and actions that can be taken to help. We actually, in efficiency drives, help to absorb part of it. But then, locally, when it has to be, it has to be, we're going to see. And then, it is not back-to-back straightaway. You have to pace that out. You have to be empathic with the consumer, but you have to care also about the substance of your business. Combining that, that's a balancing act that we're always doing. We have increased prices in Brazil, but balancing that out. In Russia, we had to increase certain parts of our business, too. I would not ask for more definition for the time being. Let the dust settle first.

Robin Tickle:

The next question is from the call, David Hayes of Merrill Lynch. David, you have the floor.

Questions on:	Details on Q3 Induction of new CEO

David Hayes, Merrill Lynch:

Morning, all. Thank you. Firstly, just on the sequential profile of the quarter. You had obviously alluded to the fact that the beginning of the quarter was tough due to the pricing shock and the inventory build at the back end of last quarter. And so, I just wonder if I could tempt to be a little bit more specific about maybe the months within the quarter or certainly the beginning of the quarter, the back end of the quarter in terms of the RIG as you look at the 1.9%. How much better, at the end, at the exiting of the quarter it was?

And then, secondly, Mr. Schneider, I believe, has been with you now for about six weeks or so, shadowing Paul I imagine over that period. I just wonder whether you can be a bit more – or whether you can tell us what he's been up to in the early days at Nestlé? And then I guess, more specifically as Chairman, Paul, and as part of the board, what kind of objectives and remit you've given Mr. Schneider as he comes into the business beginning of next year formally? Thank you.

François-Xavier Roger:

Maybe I'll take the first part of the question. No, I don't want to comment on months because it's difficult to read anyway on the top of it. There were different number of invoicing days in July and August. So, it's very difficult to read. Even from time to time for us, it's very difficult to read and we don't manage the business by the month. My comment earlier was just about Brazil because we saw some pile up of inventory prior to the price increase at the end of Q2. But we went back to the normal situation as far as volume growth is concerned, post-price increase for Brazil. But I don't want to comment further on any given month specifically.

Paul Bulcke:

Mark Schneider, indeed, he is six weeks with us. He's the most, I would say, visible trainee we have. He is actually not shadowing me in that sense. What he does is he gets emerged in the company and its operations. He's connecting with all the different dimensions of this company here at the centre, also in the markets.

He's with me in certain dimensions like our executive boards clearly. So, what he does is being a sponge and absorbing the multifaceted fascinating dimension that Nestlé is. So, that's what he is in for.

Then you asked about the objectives as chairman that is to be chairman of this company. And I think one of the very important objectives for next year is also to make sure first that I assume and I get in the saddle there. I had the privilege of being part of the board already for many years but also having worked with Peter in continuum. So that's going to help but then another objective is to make sure that Mark is a very firm and good in the saddle and that there is continuum in this company. So, I think these are the objectives for the time being.

Robin Tickle:

Thanks. The next question is from James Targett of Berenberg. James, you have the floor.

Questions on:	**Nutrition** **Nespresso and VertuoLine**

James Targett, Berenberg:

Good morning, everyone. Hope you can hear me this time. Two questions. Firstly, on Nutrition. Just looking at the outlook, really. Over the last few quarters, growth has been in the zero to 2% range. And going forward, obviously, we've got improving dairy prices. You mentioned the supply chain issues in the U.S. have been resolved. So, should we expect a material pickup in Nutrition or is the volatility surrounding the new regulation in China are going to continue to be a big drag, you think, on growth during 2017?

And then, secondly, just on *Nespresso* and *VertuoLine*. I guess, clearly, the rollout into France has been driven by good response in the U.S. Perhaps, you could talk about how strong the growth has been of *VertuoLine* in the U.S.? And also, if you have any plans to roll out *VertuoLine* further in other countries soon? Thank you.

Paul Bulcke:

Well, Nestlé Nutrition, indeed, we had a conversion of quite a few, I would say, soft elements, and the whole category worldwide was sort of, I would say, flat. Also, you have to know that in Nestlé Nutrition – in the nutrition business, per se, China is very important. Worldwide, it's almost half of the business and China has its specifics. This whole category is re-setting itself also in the expectation of this new law that is actually going clean up some grey areas and formalize this business a little bit more. That goes into our hands. What we have is – I'm going to be repeating myself, but we had some supply issues by the conversion of our whole product category. But these are the things that are operationally over now.

I think innovation again, and in our Infant formulas we definitely have a major innovation that is now being played, this going to give also this impetus to our products. We have been, despite of the figures we have, we have actually been gaining market shares in many areas, be it in Infant Formula or Infant cereals. So, I do see the whole category with all the players seeing more growth in the future. The milk prices is going to be also pricing. We had some pricing that should now also play and help us to give a little bit more organic growth. But I do also see potential volume growth.

With *Nespresso* and *VertuoLine* in U.S.A., we have good growth. It's double-digit growth in *Nespresso*. And I must say, U.S.A., by now far also the second biggest market we have in *Nespresso*. You may remember we were slightly underrepresented there, and it was a little bit hurting us. But now *Nespresso* has having very good traction and *VertuoLine* is really playing into how the U.S.A. is seeing a good cup of coffee, is playing into what they expect from it. It's not a different kind of coffee. That's also why it complements very nicely what we have in *Nespresso*, the short espresso-like coffee. That's why we also are launching it now in Europe through France. Are we extending that later on? I think yes because it has a complementary projection to our offerings. Coffee is our world. We have a fantastic brand, *Nespresso*, to cover the different areas in the characteristics and the personality of *Nespresso* is what *VertuoLine* does.

And then, we have also the *Nescafé* because that's how we see coffee. We have two fantastic brands arming this market very well and complementing the different angles to this market. So, we see *Nespresso,* with *VertuoLine* complementing the offering we have so far, as having continuous growth for the future as it has in the past.

François-Xavier Roger:

To add some colour on *VertuoLine* in France. As you know, VertuoLine is addressing the need for long coffees. What is interesting is France is our largest market as far as *Nespresso* is concerned. But we cover only 38% of the home consumption given that short coffees or espressos are only 38% of home consumption of coffee in France. So, we are now with *VertuoLine* addressing the other 62%, which is quite an interesting proposition from that point of view.

And just coming back to Nutrition in China. It's difficult to read what the future will be made of. There are some positives. There is a second-child policy, for example, which might impact positively the market, the fact that milk prices internationally have increased significantly recently, the fact that the grey market is somewhat stabilizing or getting reduced significantly. All of this is moving in the positive direction.

That being said, we still expect some, not turbulences, but a little difficult time maybe in the short term given that there is a fairly large level of inventory in the trade, not necessarily for us, but overall for the industry. So, there is a risk that ahead of the legislations some traders might be tempted to dump product or to reduce prices in the short term. So, we remain quite cautious still as far as China is concerned for Infant Nutrition.

Robin Tickle:

Thank you. And the next question from the call is from Mitch Collett of Goldman Sachs. Mitch, you have the floor.

Questions on:	**Return on Marketing spend** **Pricing environment in US**

Mitch Collett, Goldman Sachs:

Hi there. You talked about stepping up marketing spend. And we can see that marketing and admin has increased as a percentage of sales pretty consistently since 2012. But you're about to report your fifth straight year of organic growth slowdown. Do you think you're getting an adequate return on your marketing spend? And I guess, what would it look like if you haven't kept increasing?

And then, secondly, I just wanted to ask on the pricing environment in the U.S. Why do you think that has deteriorated given that soft commodities are generally starting to rise? And does that mean that your organic sales growth in the U.S. was in decline this quarter? Thank you.

Paul Bulcke:

We had a very bad connection, so I hardly heard the second part. Now, let me first go to the first one. PFME has gone up, and you say, how do you compare that with an organic growth that's slowing down? Well, part of that slowing down of the organic growth is linked with very,

very low prices. So, for me, our marketing spend is not to justify prices. It's just to create value. It's to explore new venues, new offerings to the consumer, et cetera. So, our PFME goes up, and you have always to challenge, is it wisely to be spent? That is something that digital helps us to do even better, to focus even better these investments.

But I think it is intrinsic to our strategy; I see the support behind our brands, the connection with consumers, and the personalization of offerings is like inducing a high support behind our portfolios and behind our brands. I think, also, the new venues that we are exploring are definitely more added value. So, more benefits built into our products and brands.

Millenniums, call it the millennium phenomena, the relationship with that kind of consumer is more intense, hence, also more PFME. The PFME is linked with the business models and the business offerings we have, is not just to force a growth. But as a consequence of that deeper engagement, as a consequence of that more intense innovation with more brand support, yes, indeed, it should flourish into more growth.

Volume growth we have, I repeat, at the higher end of the industry. That's the effect of having continued investing in our brands.

The second question?

François-Xavier Roger:

The line was not very good but I think you were talking about the pricing in the U.S.
We are clearly, as far as the Food and Beverage industry is concerned, in a negative – with a negative trend from pricing. So clearly, deflation in the U.S. Volume is not that great either. I think the market, Food and Beverage market even declined by volume last year, which is probably the first time it happened in the U.S. history. So, in that context, we are quite happy actually to still grow in the U.S. and we are gaining market share overall in the U.S. as a combination of both positive volume and some negative pricing as well. But overall we are gaining market share.

Paul Bulcke:

But I think you asked if – you think that we are softening and even going down in pricing in the United States. Well, it is at the same vein and the same level as the first half. In that sense, there is no softening or losing. But it's on a low level. And actually, in certain categories, we're going to see how that's going to play out in the mix. We have some price increases like in Nestlé Skin Health and that's going to start playing out more positively.

Robin Tickle:

Thanks. And the next question from the call is from Céline Pannuti of JPMorgan. Céline, you have the floor.

Questions on:	**Volume growth in categories** **Performance in China**

Céline Pannuti, JPMorgan:

Yes. Good morning. First question is on that volume growth in your categories. Is this possible for you to tell us what you think is right now the volume demand in your categories across the globe? You mentioned that you have a better RIG and volume performance than peers, I just was wondering whether we also see the risk of further decline as you are going to face tougher comp on AOA from next year and overall whether effectively you are going to feel the pressure of lower demand? That's number one.

And number two, could you share with us the performance in China? What has growth rate done in the quarter? And *Yinlu* seems to have deteriorated, so what exactly – I mean I think that they were effectively relaunched, you did say that it will take time. But what is now the step down in that performance? Thank you.

François-Xavier Roger:

The first question you asked about the volume growth by category, we're operating quite a large number of categories. So, it's difficult to cover all of them. Overall, the market, the Food and Beverage market by volume is close to zero, slightly positive, and we are doing better than the market actually. We have the highest or one of the highest growth by volume in the industry, which we clearly see, and we see that in all our categories with one exception though which is Confectionery.

Paul Bulcke:

For what is China actually is a little bit frustrating. Because there's a need to quite a lot of good stuff and growth happening in the various different categories we have. I think about

Coffee. *Nescafé*, for example, is growing very handsomely. We have also our biscuit confectionery, growing very well.

We have actually on the platform of *Yinlu*. The platform of the company *Yinlu*, very good things happening like our *Nescafé* RTD is growing double digit. We launched *Shakissimo.* That is having a good, very good take-off. We have a *Milo* RTD on that platform that is going well. It is this specific peanut milk that was wrong and is still wrong footed. We have cleaned the label, et cetera. And it is – in proportion, big. So, that is why it overshadows a lot of what's happening in China. And that we have to tackle. And we are in the process there, we have reformulated. We are differentiating the positioning. So, it's a whole marketing mix again, and it takes time. That is combined with the Food and Beverage industry in China that is, give or take, flat.

That is what hurts us in China. That combined with the size we have there, is overshadowing so much. That's actually a story off. Now, China is a fantastic place to be. Food and Beverage in general is a dimension that has projected growth. We see some pricing now here, et cetera the deflationary environment in China, can you imagine. So, but that's going to take back colour. So, we have very good elements of growth in China, but overshadowed somewhere by that specific issue.

That is also linked with what you actually see in China. There is a whole resetting that goes much deeper than just destocking. But we have had in the last two years, that’s leading to this slow growth, a whole resetting and redefining of distribution. We have mentioned that we had quite a lot of stocks in the multilayer distributor structure that we had. We had something, like, three, four layers sometimes, of distributors, to get to the small shops. In the past that was distribution, growth when you're in an upswing. It was done by many players and partly also by us. They actually call it land grabbing. It's going and engaging with a new distributor, going to a city [inaudible] and smaller villages by engaging new distributors.

Now, what's happening is with this slow growth, more fragile distributors with less financial [stability], are going out of business. So, there's a de-engaging of quite a lot of dimensions of distribution that is combined with the up-march of e-commerce.

E-commerce is important to us, there too. So, it is growing very handsomely for us. It's already way above 10% of our business in China, in certain businesses, it's touching 50%, PetCare is at 25%, for example, and growing very fast. But that's resetting a whole road to market or getting connection; physically - the products to the market. So, it entails opportunities, but there is correction.

I think also what we learned there in China is going to be reverse inspiration for many things we're going to see happening in the other parts of the world. So, I see this as a huge opportunity, but we have to try to get out of that overshadowing dimension of *Yinlu* and that's what we're doing. It lasts longer, it's deeper because it combines with other negatives that are a bit out of our reach but that we live in.

Robin Tickle:

Thanks. And the next question from the call is from Patrik Schwendimann of ZKB. Patrick, you have the floor.

Questions on:	**Environment for 2017** **Organic growth for 2017**

Patrik Schwendimann, ZKB:

Good morning, Paul. Good morning, François. What's your best guess expectation for the environment for 2017 for the Emerging markets, e.g., China, Brazil and Africa and for the Developed markets, e.g., U.S. and Europe? That's my first question.

And secondly, what does this mean for organic growth for 2017? A similar growth to 2016 or better? Thank you.

Paul Bulcke:

We're not even finished in 2016 and you're asking me already for 2017. Look, worldwide growth is projected to be slightly over 3%. And we all feel depressed and say, look, this is bad. I just want to remember that before these easier, golden years that we had before this crisis, already eight years ago. That was a golden age of worldwide growth of 4-point-something percent. But before that, 20 years, average 3.5% max. So we get used to the growth figures that in the past we didn't have and we forget it. Now, 3%-plus, we should be able to grow above that but that's a projection. On the Emerging and Developed markets, it is known and it's projected and that's why we have always said we're an '*AND'* company.

That's why we never disengage from the ‘Europes’ of this world. That's why we always have always grown in these markets. Through the whole crisis, we never had one year of no growth in Europe – Western Europe. It is projected that worldwide growth, value growth, in spite of Emerging markets catching up, 50% of the worldwide GDP growth is going to come from Developed markets. So, that's why we don't disengage from there.

It's going to be different. It's going to be different venues and different offerings. I do feel food and diet is going to gain. So, I speak in longer term now, but that's why I don’t think that growth is going to be in the Emerging markets more than the Developed markets. We have to maintain that ‘*AND’* dimension in the offering.

The Emerging markets is going to be, again, a painting of different colours. We all say about China, but China is a country that is growing, and it is growing on a much bigger base. We have Food and Beverage resetting somewhere, but the country as such is growing. Softer pace but on a bigger base.

Russia challenge, we are growing very handsomely in Russia this year. And there's some pricing, too, but we have volume growth. That's the resilience of our industry, that combined with innovation.

Brazil is in turbulent times and there's instability. But again, we have this local *savoir faire* of understanding the idiosyncrasies we have there. We have people there.

The ‘Mexicos’ of this world, growing very well. Then you have India - growth projections - and we're going out of our troubles there fairly handsomely, too.

We speak about these big blocks, but then you add the many smaller ones, and you have very good dynamics. The Philippines, Indonesia, Vietnam. You go to Africa in what we call CWA, Central West Africa region. There's turbulence there too, but that was always part of the world in certain places, and [we are] growing there very, very good.

So, I’m going to stop here because you're going to say I'm too optimistic, but I don't project any figures. I don't think it's all of a sudden a flip-flop and we're going to get into an environment of – again. Now I'm cautious and we will be cautious, but I do believe there is opportunity, and that’s exactly why we're investing.

Robin Tickle:

Thanks. And the next question from the call is from Martin Deboo of Jefferies. Martin, you have the floor.

Questions on:	**Underlying Margin outlook in H2** **Commodity basket**

Martin Deboo, Jefferies:

Thank you very much. Two quick questions. I'd like to come back to Jon Cox's question on the margin outlook. François-Xavier you have been very clear that there's going to be an increased restructuring burden on the trading margin in H2. But my question is what about underlying margin? Pricing is sequentially improving. You're not yet seeing the worst of commodity inflation. I don't know what's happening to marketing. What would we expect to see in terms of the underlying margin outlook in H2?

And the second one is just really a very simply question, leaving aside your hedging and forward buying. Just how is your commodity basket moving at the moment at spot prices?

François-Xavier Roger:

Okay. On the margin side, indeed, I think you're right that we will have to look probably in the next couple of quarters at the margin before restructuring because we will have more restructuring cost in the second half of 2016 and we will have some significant amount again in 2017. We'll come back to you in due time with amounts because we are still working on a certain number of project and finalizing it. And you could see that our margin before restructuring had increased by 30 basis points in June. Well, that being said, we don't give any forward-looking statements as far as margin is concerned, beyond the fact that we will increase our trading operating margin. You have seen as well that our gross margin has increased significantly, 380 basis points, I think, over the last four years. This is something that we continue working upon in order to continue improving our margin as a consequence of pricing and as a consequence cost efficiency. So, that will remain and will allow us to continue as well, investing further in marketing, as Paul said, and investing further as well in R&D.

Talking about commodities, we have seen some increasing commodity pricing in terms of our basket of commodity pricing over the last two to three quarters. I can talk about milk and coffee and cocoa or even palm oil. It was a little bit less of obvious, I would say, the increase maybe over the last quarter, but still, we believe that we have hit probably the bottom – probably two quarters ago and might have reached an inflection point. I could mention oil as well, because oil impacts, for example, our Water business through PET. So, we are – as you know and as I mentioned earlier, we have hedging policies in place, so which mean that we don't necessarily need to reflect it in our pricing in the very short term, but there might be a time when we have to reflect it.

Price increases is not always the answer that we have. And just reflecting back again on the UK situation, whenever we have an increase in input costs, the first thing that we do is really to work at cost efficiencies because, I mean, obviously price increases is the easy path, but it is largely linked to competitive forces in a given market. So, the first answer is immediately to look at cost efficiencies in order to be able to remain as competitive as we can.

Paul Bulcke:

We see some pickup there. François mentioned that milk was on a historical low, and then it is not healthy to have extremely low commodity prices. It's a very destabilizing factor. I think also for an economy to have a slight, low inflation is like a stabilizer. And that deflationary environment, remember that it's a very difficult thing, once you get really into it to, get out of it. Also low commodity prices is not good because it conditions the lives of so many people in the world.

So, we see some colour coming back in the broader form, much softer and slower than we thought. That's reflecting also why we're revisiting some figures, but much softer than we thought if you see historically. So, that reflects again the softer trading environment and you go on. But I think once we get a little bit of that momentum back, I hope there will be on a moderate, but firm pace, and not like we had with these dramatically low raw material prices. It's a false impression that we have that it helps us. At the end of the day, it doesn't, it doesn't help. So, it's softer than we thought but at least some colour is coming back, specifically in base raw materials, cocoa, coffee and milk for us. And then we see the impact of oil prices. We have to wait to see what's happening there. And that affects then, also definitely quite importantly, agricultural materials.

Robin Tickle:

Thanks. And the next question from the call is from Jeff Stent of Exane. Jeff, you have the floor.

Question on:	**Reflections on time as CEO**

Jeff Stent, Exane:

Good morning. Just one real quick question. I think I'm correct in saying it's the last time that Paul will be addressing this audience as CEO, and reflecting on your last eight years, Paul, if you were to say what your one biggest achievement has been and your one biggest regret, what would they be?

Paul Bulcke:

Well still sitting here is a good thing, right. I never speak about legacies or what ifs, but at the end of the day, these were not easy years. These were actually eight years with crisis and turbulences. A combination of macroeconomics, societal, political, also technologies. I call it an inflection point. I think it's fascinating the opportunities it gives, but at the same time, I think we went relatively steadily through all that, and that is a point that we all can be proud of because these were turbulent times.

We did weave through these holes all these years and have been delivering, also in the Developed markets, growth and maintaining our agenda. Yes, we have to reset certain dimensions and have good reactions; realistic and pragmatic. But at the end of the day, being able to do that and investing for the future. I think that's important. Doing and managing the right things, balancing the short-term turbulences and doing what was needed to get stronger. I think this company is definitely stronger and when some more environmental tailwind comes, that's going to be much more visible. That is something that we're proud of.

It went by so fast. I mean, 8 years indeed, it is very fast. That's a regret that it goes fast. In some way does it end? I'm so happy I'm still going to be part of it from another angle and that I can still serve this company that I have dedicated 37 years to, it's not bad so far. That's maybe a regret.

Robin Tickle:

Okay. Thanks. The next question is from Alain Oberhuber, MainFirst. Alain, you have the floor.

Questions on:	**Organic growth** **US Frozen Business**

Alain-Sebastian Oberhuber, MainFirst:

Thank you very much. Good morning, everybody. Two questions. Regarding the growth again, do I understand it right that we expect now similar pricing but an acceleration in the organic growth, particularly in the RIG? And then for next year, it's obviously high base in H1. Could we expect that the organic growth next year is more geared and secured to the second half?

And my second question is regarding U.S. Frozen dish business. Could you give us a little bit more insight about the development of *Stouffer's* pizza, as well as the *Hot Pockets*, please?

Paul Bulcke:

Maybe you'll answer the first part. But on *Stouffer's* and *Lean Cuisine*, I must say, we continue getting market share. Last year, we had a good resetting – very good growth. That growth is a little bit less now, on better growth of last year, but still growth and getting market share. So, I think we're doing the right thing. What we should not do is fall in the trap of re-launch and that's it, that's why we have a permanent revamping of the category and our portfolio now. It continues to give us a good promise of growth for the future and that in *Lean Cuisine* and in *Stouffer's* and in *Hot Pockets*. So, it is really quite motivating.

François-Xavier Roger:

On the balancing, as Paul said earlier, let us finish our 2017 budget first before we talk about the phasing. I think it's far too early to talk about the phasing between H1 and H2. On the question on pricing acceleration, as I mentioned earlier, we don't expect any pricing at this stage. At least in the short-term in the Western countries, we are still in a deflationary environment and there is no evidence of a turnaround there. It could happen later, maybe in

2017, once again if commodity pricing was really picking up. But once again, there is a delay between market prices and what we reflect to the market.

And in Developing market, Emerging market, there could be a little bit more pricing. For example, what we did in Brazil is largely linked to foreign exchange pressure which translates into additional input cost. So, there might be a little bit more of it in Latin America or in Eastern Europe probably in the later part of 2017 again.

Robin Tickle:

Thanks. And the final question is from James Edwardes Jones of RBC. James, you have the floor.

Question on:	**Margins after restructuring costs**

James Edwardes Jones, RBC:

Yes. Thank you. François, you mentioned that there'd be a need to look at margins before restructuring cost. Can I just confirm that your outlook for the year for margin growth refers to margins after restructuring costs?

François-Xavier Roger:

Yes. So, we will increase our trading operating margin after restructuring costs while increasing the restructuring amount in 2016 over 2015. I can't give you the amount of restructuring because we are still finalizing it. It depends. I mean, the cut-off date has a significant influence on the amount that we could book, but we know already that even while increasing restructuring cost in 2016, we will improve our trading operating margin. This is once again part of our model and part of our guidance.

Paul Bulcke:

We commit to a figure of margin improvement. Covering that additional more intense restructuring. I think it's again balancing things out, not resetting or asking for a moratorium. I think that's a quality of what we promise.

End of Q&A session

Paul Bulcke:

These are soft trading environments. This balancing of short-term and having quality in our sales which I see in the dimension of volume, which is not volume for volume - it represents something, that is leading in many categories. Something that we owe to the category and to ourselves, to drive categories. And I think there was quite a few years of accelerated changes in all these categories.

We are engaging, re-engaging, connecting, and re-connecting. But the growth was always there and that is what I see, the quality to be in the higher end of the industry. But because we also lead in quite a few categories. I mean indeed building the capabilities to compete. To be competitive is to be able to compete and that is what we're investing in.

At the same time, there is the more long-term. It's this innovation. I cannot stress enough the importance of keeping a mind-set, an engagement and resources behind innovation linked with science, knowledge and engaging in different models. It is also maintaining, in a company like ours which is a sizeable company with a lot of tradition and history, which is a strength but could be a liability. How not to allow it to be liability is by reinventing ourselves, hence I use the word NBE, it is to really restructure and reassess and be more efficient and be much more effective. That is the process we are in and I'm very positive for the future.

Thank you very much.

Robin Tickle:

Thank you Paul and as usual we are happy to take any follow up questions via email or Twitter. I am sure you know the addresses.

Thank you very much.

End of Transcript