

NESTLÉ S.A.

2018 THREE MONTH SALES INVESTOR CALL TRANSCRIPT

19th April, 2018, 14:00 CEST

Speakers:

Mark Schneider, Chief Executive Officer, Nestlé S.A.

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

Dessi Temperley, Head of Investor Relations, Nestlé S.A.

This transcript may have been edited for clarity, and the spoken version is the valid record. This document is subject to the same terms and conditions found at <https://www.nestle.com/info/tc>.

Dessi Temperley, Nestlé S.A., Head of Investor Relations**Slide: Title slide**

Good afternoon to everyone, and welcome to Nestlé's Three-Month Results Conference Call. I am Dessi Temperley, Head of Investor Relations. Here with me our CEO, Mark Schneider and our CFO, François Roger. As usual, first we will present our results and then we will open the lines for questions.

Slide: Disclaimer

I'll take the Safe Harbour statement as read and now I hand over to Mark Schneider.

Mark Schneider, Nestlé S.A., Chief Executive Officer**Slide: Title Slide – Mark Schneider**

Thank you, Dessi, and a warm welcome to our conference call participants today. As always, we appreciate your interest in our company.

Slide: Key Messages

I'm pleased to report a solid start to the year, which is fully in line with our guidance for 2018.

Growth was broad-based across our geographies. It was also in line with the expectation we articulated in February, that our 2018 organic growth would improve over the levels we saw in 2017. I would therefore like to reiterate and confirm that expectation.

I was pleased with the improvement we saw in the U.S. market, where a rebound in PetCare and strong growth in Coffee creamers were the primary growth drivers.

The continued good growth in our Zone EMENA proves that the attractiveness and consumer appeal of our brands were prevailing over the retail pressures in Western Europe. The strong performance in Zone AOA was not just calendar driven. It was broad-based across our markets there and I was particularly pleased by our success in China across all categories.

Our Q1 organic growth confirms my assessment from the February conference call when we discussed the softness in Q4 2017. I described most of the issues at that time as transitory in character.

We still have work to do when it comes to our categories, Nutrition and Water. Brazil, our fourth largest market, continues to see a challenging trading environment.

On the positive side, I would like to confirm that all our innovation, portfolio management and efficiency initiatives are fully on track. And the migration of our Nutrition business from a globally-managed entity to one that gets run by the three Zones has been implemented very well.

So all in all, a busy quarter that points in the right direction when it comes to the year 2018 and our mid-term objectives.

Let me hand it over now to François now for detailed review and I'll be happy to answer your questions afterwards.

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

Slide: Title Slide – François-Xavier Roger

Thank you, Mark. Good afternoon or good morning to all.

Slide: Three-month performance highlights

Let me begin with the highlight for the three months.

We started the year with organic growth of 2.8%. Excluding the Confectionery business in the United States, organic growth was 2.9%.

RIG was strong accelerating to 2.6%. We continue to be at the high end of the Food and Beverage industry in terms of volume growth. Pricing was 0.2% largely reflecting lower levels of inflation in Emerging markets.

The net M&A impact was slightly positive at 0.2% as we are actively pursuing our portfolio management initiatives.

Foreign exchange was a negative 1.6% mainly reflecting a weaker dollar.

And our total sales in Swiss Francs were CHF 21.3 billion, a 1.4% increase on a reported basis.

Slide: RIG acceleration across geographies

This slide illustrates the performance of our sales for the Zones as well as for our Globally and Regionally managed businesses by geography.

Our growth was broad-based both in terms of organic growth and RIG with all geographies showing an acceleration in RIG versus last year. The most notable increase in volume came

from AMS and more specifically North America. Pricing was softer than last year in the three geographies.

Slide: Strong RIG in Developed and Emerging markets

Let's now review our growth dynamics between Developed and Emerging markets. The RIG acceleration seen at Group level is coming from both Developed and Emerging markets.

In the Developed markets, the improvement is coming from North America, where we have started the year with solid RIG supported by positive pricing.

In the Emerging markets, we had a meaningful improvement in RIG versus last year in both EMENA and AOA helped by China's good growth. Pricing from the Emerging markets was less, most notably from Brazil, which continues to be impacted by deflationary pressures and to a lesser extent also from sub-Saharan Africa.

Slide: Zone AMS

Before discussing the dynamics for each of the operating segments, let me remind you that Nestlé Nutrition, is now included in the three Zones as of January 1, 2018.

Starting with Zone Americas, where sales were CHF 6.8 billion, real internal growth was 1.6%, pricing was slightly negative at - 0.4%, resulting in an organic growth of 1.2%.

Excluding U.S. Confectionery, the Zone's OG would be 1.4%.

The Zone's improvement is largely due to a return to positive growth in North America, driven by good results in PetCare, Coffee creamers, and Frozen pizza. The U.S. Confectionery business, which was divested at the end of March continued to weigh on results for the quarter.

In Latin America, RIG held stable versus full-year 2017, but pricing was negative putting pressure on the Zone's organic growth. Brazil in particular faced a challenging trading environment with deflationary pressures as mentioned earlier. Pricing in Brazil remained negative in most categories, particularly in Dairy following the price reductions taken in the second half of 2017. We are gaining market share in Brazil, which should position us well if and when the market rebounds.

Slide: Zone EMENA

Moving on to Zone EMENA with sales of CHF 4.7 billion. Organic growth was 2.2% consistent with the level achieved over the past two years. RIG accelerated to 2.6%, pricing

fell by 0.4% as a result of negative trends in both Western Europe and Eastern Europe. All three sub-regions sustained positive RIG.

As you might recall, last year we shifted to a category focused approach for EMENA. So let's now look at the dynamics by category for EMENA starting with Coffee where organic growth remained robust, thanks to a strong RIG fuelled by successful product innovations and renovation such as *Nescafé* in the UK.

PetCare continued to be a good growth driver delivering mid-single digit RIG with strong results in Russia. Culinary and Dairy both saw improved organic growth. Confectionery in EMENA started the year with higher RIG versus 2017, largely helped by a good performance in Western Europe.

On pricing, we are facing a period of high comparables in Coffee, following price increases taken in early 2017.

Slide: Zone AOA

Moving on to Zone AOA. Sales for the quarter were CHF 5.3 billion, organic growth held strong at 4.7% as lower pricing of 0.8% was compensated by an increased RIG of 3.9%.

China saw strong growth, helped partly by the timing of Chinese New Year and in China all categories contributed positively. Southeast Asia maintained positive RIG and pricing led by good organic growth in both *Milo* and *Maggi*. Ambient Dairy and Nutrition were more subdued with difficult comparables from last year. The South Asia region grew well with positive RIG-driven growth across nearly all categories.

Finally, the Developed markets in AOA namely Oceania, Japan and South Korea, sustained positive RIG, more than offsetting negative pricing. Confectionery continued to be strong in Japan. In Oceania, the highlights were Culinary and PetCare.

Slide: Nestlé Waters

Moving now to Waters, organic growth was soft at 0.5% as RIG declined by 1.2% with subdued performance in Western Europe and in some Emerging markets. Pricing increased by 1.7%, reflecting strong cost inflation mainly in distribution.

For Waters, in the Developed markets, RIG was negative as the inclement weather negatively impacted demand on distribution, especially in Western Europe. Growth in North America improved moderately with pricing being the main driver as a result of cost inflation

mainly in distribution. In the U.S., we launched sparkling water ranges under our strong regional brands.

In the Emerging markets, both MENA and Eastern Europe showed accelerated organic growth versus the full year of 2017. China and Brazil were negative in the first quarter, but as you know we have recently announced the disposal of the Water business in Brazil keeping only a selective presence with our premium brands.

Slide: Other Businesses

And finally, we finish with the Other businesses which includes *Nespresso*, Nestlé Health Science, and Nestlé Skin Health. As from this year, it also includes the Gerber Life Insurance business. You may recall that in February we announced that we are exploring strategic options for these business including a potential sale.

Total sales for the Other businesses were CHF 2.7 billion. RIG was strong at 5.2%, pricing contributed 1.2% resulting in organic growth of 6.4%.

Starting with *Nespresso* which held strong mid-single-digit organic growth with a positive quarter in all three Zones, momentum decelerated slightly in Western Europe, but growth in North America remains very promising as organic growth showed continued acceleration.

Nestlé Health Science maintained mid-single-digit growth driven by Medical Nutrition which delivered more than 6% organic growth. The acquisition of Atrium was completed at the beginning of March as we continue to execute on our portfolio management strategy.

Nestlé Skin Health started the year well with good growth, positive in terms of both RIG and pricing. The aesthetics business continued to be a highlight, especially in North America.

Slide: Growth by products

Moving now on our performance by product group. Our growth continued to be broad based with all categories positive.

We start with Powdered and Liquid beverages, which sustained a strong organic growth. RIG was robust reflecting a progressive acceleration in Coffee throughout 2017 and into Q1 2018.

Waters we have already discussed, so I will move to Milk products and Ice Cream, which were softer in this quarter owing, almost entirely, to negative pricing in Brazil following a sharp decline of close to 20% in milk prices as from the second half of last year. We had strong organic growth and RIG in both EMENA and AOA.

Nutrition and Health Science delivered strong growth as all three main businesses in the segment Infant Nutrition, Nestlé Skin Health, and Nestlé Health Science showed improvements since the full year in terms of both OG and RIG. The overall growth of Nestlé Nutrition across the three Zones was at 2.2%. While this shows an improvement against last year, it is still below our expectations.

In Prepared dishes and Cooking aids, growth was mainly coming from the ambient culinary segment.

Confectionery had a strong start to the year, partly helped by an earlier Easter. RIG was positive in nearly all markets except the U.S., growth for the category would have been 120 basis points higher when excluding the U.S. business. *KitKat* continued to grow well sustaining strong mid-single digit momentum.

And finally PetCare, where we finished with 4.7% organic growth, the highest level since 2016. This is mainly coming from an improved momentum in the U.S. where we are starting to see the returns on our investment in the fast growing natural segment as well as in e-commerce. Other Developed markets like the UK and Australia also did very well.

Slide: 2018 guidance confirmed

With that, I will conclude by confirming our 2018 outlook. We expect organic sales growth in the 2% to 4% range. The underlying trading operating margin is expected to improve in line with our 2020 targets. We are expecting restructuring costs of around CHF 700 million and we also expect an increase in underlying EPS and capital efficiency.

I'm now handing back over to Dessi for the Q&A session.

Dessi Temperley, Nestlé S.A., Head of Investor Relations

Thank you, François and thank you, Mark. With that, we move to the Q&A session and we open the lines for questions.

Q & A Session

**Questions on: Nutrition in Zone AOA
PetCare in USA**

Eileen Khoo, Morgan Stanley:

Thanks, Dessi. Good afternoon, Mark and François. I've got two questions. The first one is on Zone AOA. So could you just confirm that Nutrition is now about 30% of the Zone? And

your press release said that China had strong growth across all categories, so does that include Nutrition? And if that's the case, then what other markets in AOA that dragged the Nutrition number down because you said it was below expectations?

Then the second question is on pet food in the U.S. It's great that you've seen better momentum here in the quarter. If I look at a bit more long-term, you have been growing below the market here given that you're under represented in that natural segment, I think is a single-digit percentage of your sales. Do you see Nestlé being able to close the gap and get back to outperformance versus the market again? And if so how do you get there given it's becoming quite a crowded space particularly with some of your more specialists manufacturers now keep going into the grocery channel as well. Could you talk a bit about that? Thanks very much.

Mark Schneider:

Thanks, Eileen. Let me take the second question and maybe François can handle the first one. So on Pet food in the U.S., we were quite encouraged by the progress we've seen. I think there's some general trends underway that we are playing beautifully towards premiumization, more natural products and improving the ingredients and in just basically playing the same trends that we've seen now for several years and making sure, across all our price ranges, that we're moving in that direction.

I think you're seeing in this category some of the same overall fundamentals that apply to other categories where some of the small to mid-size players collectively do take a bit of share from the larger ones. We can probably, through our success, slow that a bit down. Is it possible to stop it? I'm not sure. Nonetheless, when it comes to improving our product line up and also when it comes to exploiting digital opportunities, I felt very encouraged by what the team has done. I think that that will continue throughout 2018 and beyond.

François-Xavier Roger:

Good afternoon, Eileen. So I'll take the first question about Nutrition. So AOA is by far the largest part of our Nutrition business. It contributes to slightly less than 50% of the total Nutrition business. We had an improved momentum as far as Nutrition in AOA is concerned. That being said, it is clearly below our expectations. We are, let's say, around mid-single-digit growth in AOA, but this is clearly below our expectations. In China, we saw an improved momentum across categories including Nutrition, but clearly once again in terms of Nutrition, we do expect to grow at a higher level.

Mark Schneider:

Yes, Eileen, if I can build on that, so for China, I think what we wanted to point out here is that we saw a positive growth in all categories, which as you know in some previous years and previous quarters was not always the case. We had some real disappointments there that was not the case in this first quarter 2018. That was not meant to say that we're totally happy with where we are in Nutrition because I think as we discussed in previous conference calls, there's a significant opportunity especially from cross-border e-commerce and especially when it comes to the top end of the market premiumisation that we just need to do better on. So we're not happy with the results that we want to do better, but nonetheless, it was true that growth was positive in all categories in the second largest market for Nestlé.

Questions on:	Growth in US excluding PetCare Update on recent acquisitions
----------------------	---

Jean-Philippe Bertschy, Vontobel:

Thanks, Dessi and good afternoon, gentlemen. The first one would be on the U.S., actually in PetCare, is the growth still positive and maybe to give some colour on the different segments like Frozen foods. And the second question would be on the recent acquisitions you made, if you can maybe update us on them like Blue Bottle Coffee, Chameleon, or even Atrium which seem to perform quite strongly in terms of growth? Thanks.

Mark Schneider:

Yes, Jean-Philippe. Again starting with the second one, we're quite pleased with all the small to midsized deals we've done in 2017, but I do want to remind everyone that while some of them are contributing to our reported growth they are not yet contributing to our organic growth in that market because as you know for that they have to stay with us for 12 month period after close. So again they're helping on the reported growth, but not on organic.

Overall in the U.S. as we pointed out, in addition to PetCare, we were encouraged by the Coffee creamers. We were also encouraged for example by the Pizza business and by and large I think you know, aside from the U.S. Confectionery business which as you know closed at the end of March, we've seen a fairly broad-based success in the market.

Questions on:	Confidence in projected growth for 2018 Pricing in Brazil
----------------------	--

James Edwardes Jones, RBC:

Good afternoon, all. Good afternoon, Dessi. Mark, I'm paraphrasing, but at a meeting a couple of months ago you said you consider what you say very carefully before you say it.

That being so, why did you think it was worth putting the point about 2018 sales growth being better than 2017's in the Full-Year press release back in February, but not in this morning's. Are you feeling any less confident about it?

And the second point, can you help me understand why pricing is so negative in Brazil. There's been pronounced currency weakness. I thought the way it generally works with the consumer staples companies is when the currency is weak, you put up prices. Why isn't that happening here in this instance?

Mark Schneider:

Yes. James, thanks for your question. So clearly I think my opening remarks now, I pointed out that what we've said about 2018 still holds true and that is an improvement over the OG levels we've seen in 2017. As you see from past quarters, I try to keep my quotes very brief and to the point and hence for the first quarter, so no particular need to repeat it. But I did repeat it at the beginning of this conference call, so it's fully confirmed.

When it comes to Brazil, I think a lot has to do with the development of Dairy prices in that market and then that feeding through into some related categories, for example Nutrition.

Questions on:	Input costs and freight costs in the US Pricing variance in the US in Q1
----------------------	---

Martin Deboo, Jefferies:

Good afternoon, Dessi. Just two very quick ones for me, probably more for François-Xavier. François-Xavier, how are you seeing your input cost position now in FY 2018 as we're one quarter in? I think at Q4, you were saying a slight decrease, if I understand the transcript correctly, is that still the case? And within that, could you comment on any pressure you're seeing from the big topic of the quarter which is freight costs in the U.S.?

And one second one very quickly is what was the Nestlé pricing variance in North America in Q1?

François-Xavier Roger:

The input cost, I confirm that we expect to have some tailwind in the year 2017. I think we mentioned in the full year [2017] that it was around CHF 200 million. We are slightly lower as of now for the full year 2018. That being said, the time it reaches our P&L, it would be probably more recognized in our accounts in the second part of the year, because we are still suffering a little bit from the headwind that we had last year in terms of commodities which was CHF 900 million additional cost. But we confirm that it will be positive for 2018.

You are absolutely right that we have some significant pressure coming from the transportation cost and freight cost in the U.S., which I think is confirmed by all players in the industry. It does affect some of our businesses more than others and more specifically water, because obviously these products are relatively heavy and they need to be shipped certain distances, so it is clearly an increased cost. As you know there are a certain number of reasons for it, lack of drivers, lack of trucks and so forth. But we confirm it.

Pricing in North America is actually slightly positive, so it was slightly positive last year and it's again slightly positive this year, so that's one of the territories where we are still enjoying positive pricing.

Questions on:	Improving growth in Nestlé Waters Effect of changes in incentive scheme on attitude to pricing
----------------------	---

Warren Ackerman, Société Générale:

Hi, everybody. It's Warren Ackerman here at SocGen. Two from me as well and the first one, Mark, you said in your prepared remarks, there is more work to be done in Water and although weather wasn't great admittedly in Q1, it's a low season, you can't be happy with negative RIG and 0.5% OG given the breadth of your Water portfolio. What needs to be done fundamentally with this business? It seems very Developed market weighted. I know you're entering in sparkling water in the U.S. which is a help, but I mean what you need to do to really grip this and start getting that business growing much better?

And then secondly, just kind of about this whole pricing debate, I was very interested to see that you've changed your policy on incentivization to move away from just paying on RIG to paying on organic growth from the first of January this year. Do you think that has been a factor, Mark, into why perhaps pricing has been so weak in recent years, that perhaps people internally have been using pricing and promo to drive RIG, which has been the primary way they've been paid, but that's now changing. Do you think that's going to help change behaviour and if so, how quickly do you think that might happen? Thank you.

Mark Schneider:

Thanks, Warren. So on Water, there are some minor issues to be addressed in Europe. I think a key part relates to North America. As you know in North America we're really engaged in two different types of the Water business.

There's the premium international waters that we import. And then there is a variety of regional brands and those were also the ones that saw the launch of carbonated varieties this year. So again I think we did do a lot of work already. We fully expected the first quarter

to be somewhat on the soft side. Having said that, I'm more optimistic now that some of the things we've put in place including for example those carbonated launches that happened in the first quarter will start to pay off.

And so starting now for the remainder of the year, I'm more optimistic. So I think a lot of what needs to be done has been done already. The key market to watch is the U.S., which is close to two-thirds of the Nestlé Waters business.

Regarding incentives and OG, I think as I explained as part of the full year conference call and on the road shows, I believe that going forward this is a more balanced way and it'll certainly be a good reason for people to consider pricing upsides where and if they present themselves. But I think this is not a one quarter type of thing.

So when I describe the change in incentives to you, I did not expect that within a quarter or two it would already show some results. So this to me is a one to several year kind of thing. But we do want to be sure that on pricing we're using all possible upsides. And as you know the picture is quite different from market to market. In some areas, you have little pricing opportunity and others you have more. And so we wanted to be sure that people have more flexibility to pursue pricing where that's possible. It was not only about incentives. I think I explained that we also have been preparing a whole lot of pricing and analytics tools that we make available to all markets being sure that we share best practices across all markets.

Questions on:	Expectations for Q2 Pricing expectations for 2018
----------------------	--

Patrik Schwendimann, Zurcher Kantonalbank:

Good afternoon, Mark, François and Dessi. I know that Nestlé is here for the long-term, but despite this fact the market is also looking at the next quarters, a competitor has warned today that quarter two will be most likely weaker than quarter one, is this also a best guess assumption for Nestlé, because of this year's earlier Easter, that's my first question.

And second question again on pricing, you have mentioned that you expect some tailwind in 2018 from raw materials. What does this mean as in the best guess for the full year on price increases? Thank you.

Mark Schneider:

Patrik, on the first one, we're trying to be helpful, but at this point, what we don't want to do is get into quarterly guidance here. So I think what you should take away from the call is our satisfaction with the start to the year and also a good amount of optimism when it comes to the full year 2018, but I'd like to leave it at that.

François-Xavier Roger:

Regarding pricing, so you know that I mentioned in terms of tailwind for 2018, I think it's relatively small relative to the size of Nestlé, so I don't think that it will be – it will have major consequences on pricing for the later part of the year. Be aware of one thing as far as pricing is concerned is that, last year we were at 0.8% of pricing for the full year, we are at 0.2% in Q1. The difference between the two is almost entirely coming from Emerging markets where we had basically pricing coming from currency depreciation and offsetting currency depreciation, which we don't really have now and I'm talking there of Brazil to a large extent Russia and maybe some countries in sub-Saharan Africa.

Questions on:	Acquisitions in Consumer Health Emerging growth drivers
----------------------	--

Mitch Collett, Goldman Sachs:

Hi, there, you said last time you updated us on your potential areas for acquisition focus, that Consumer Health was still part of your thinking. There seems to be fewer and fewer Consumer Health assets out there, is that still a category you see as attractive?

Then some of the Emerging growth drivers you've mentioned whether it's natural pet or e-commerce for pet or premium waters or sparkling waters, would I be right in thinking that those growth drivers are margin accretive to the Group?

Mark Schneider:

So, Mitch. On your first one Consumer Health, yes, I can fully confirm our continued interest, but let me balance that by reiterating all the things that I stressed in London and that is we stand for a disciplined and very focused approach and what we're not interested in is building a broad-based Consumer Health portfolio that is from soup to nuts.

So, it really has to be focused on some of the core things that we bring to the table and as you know, nutrition and metabolism expertise is at the core of what we do. And hence when this broad based portfolio is for sale that may not be right up our alley; however when for example, the Atrium business was for sale, that was clearly something that we were interested in.

To your second question, all of these opportunities you've mentioned are clearly of interest to us and here again it depends on the merits of individual opportunities, is the pricing right, is there a chance to get a decent return.

So when it comes to our financial approach to all of these, it's important that on the one hand, we want to be opportunity driven, on the other hand, we also want to be disciplined and want to be sure that we're not overpaying.

Questions on:	AgeCore dispute and the implications for pricing in Europe Factors for consideration in Q2
----------------------	---

Jon Cox, Kepler Cheuvreux:

Thank you guys. Thanks, Dessi, Mark, François-Xavier. Two questions from my side. One is on the whole AgeCore group of supermarkets and the dispute you had over the last couple of weeks or so. It seems that a lot of these guys want to go to common European purchase prices, is that a new view we have to worry about in terms of pricing i.e. your pricing was negative in Europe Zone in Q1 going forward. Is that something of concern to you? First question.

Second question just sort of digging around a bit on what Patrick said. Is there any reason or any sort of things we should think about for Q2 compared to Q1. Or is it really remove the U.S. Confectionery business and growth should be running around the same level? Thank you.

Mark Schneider:

Thanks Jon. So on the European pricing, I think every time you have a geography that has large markets side by side that have some pricing differences, yes, over time it's a safe bet to assume that those will converge somewhat.

So I think the broader trends that we're seeing here should not be surprising and that's clearly something that we have to adjust to by improving our cost structures and also I think the category led approach across Europe that Marco Settembri has been spearheading is very helpful in making the most of that situation. Specifically, while I don't want to sort of comment too much on the on the AgeCore situation, I want to just make it very clear that we are in ongoing negotiations there and of course we will only agree to a balanced arrangement and only sign when we're satisfied that we'll get something out of an agreement. So this is not the time for one-sided concessions.

Regarding Q2 and the calendar, I mean yes, clearly you know the way Easter falls that's one thing to consider, the fact that the U.S. Confectionery is gone is another one to consider. Again beyond that what we don't want to do is get into a quarterly steering here.

Questions on:	Areas for restructuring
----------------------	--------------------------------

Ice Cream performance in US**Alain-Sebastian Oberhuber, MainFirst:**

Yes, good afternoon, Dessi and good afternoon, Mark and François-Xavier. Alain Oberhuber, MainFirst here. I have a question regarding your restructuring you mentioned. In which area could we expect that it could be, last year we have seen that in [indiscernible].

And the second is regarding the U.S. coming back one of the slower growth categories was obviously Ice Cream. How's the Ice Cream doing?

Mark Schneider:

Could you expand on both questions? I'm not sure I fully understood where you're coming from?

Alain-Sebastian Oberhuber, MainFirst:

Excuse me. Okay. The first question is regarding restructuring, regarding the announcement in which area could we expect these restructuring to go mainly last year we had a large restructuring particularly in Skin Health.

And the second question is regarding the U.S. In Ice Cream, what is Ice Cream doing – how well is Ice Cream doing at the moment?

Mark Schneider:

Okay. So, on the second one in the U.S. starting last year, we worked on profit improvement programme in Ice Cream. Basically we look at some of the good practices we saw from our Froneri joint venture and we're trying to apply those to our next largest Ice Cream business which now of course is in the U.S. and I think that's coming off nicely. So quite encouraged with that.

Overall, as you know there are quite some significant market trends here towards lighter, health conscious options and we're trying to adjust to that by launching products that go in that direction.

On restructuring, we did not give specific pointers where the money is going. As we go through the year we'll fill you in and let you know where that money is spent. But again it is part of the broader plan that we laid out to you last September towards our margin target for 2020.

Questions on:	Prepared dishes and cooking aids in the US Baby food in US
----------------------	---

Robert Waldschmidt, Liberum:

Good afternoon. My two questions centre on the U.S. as well. One, I believe Francois you made some comments about U.S., sorry Prepared dishes and Cooking aids ex the U.S. and how that was dragging the number down. Can you give some more granularity on what's going on that would be dragging that down?

And secondly can you speak to U.S. Baby food and how your performance is trending in that area? Thank you.

François-Xavier Roger:

Sorry could you repeat the first question because I didn't hear well the first question.

Robert Waldschmidt, Liberum:

So I'll pick up my handset here. In your prepared remarks you were talking about Cooking aids and Prepared dishes and how the U.S. was dragging down that result and you gave a number how it would be growing excluding the U.S. Can you give us some more colour about what's going that is dragging that down specifically?

And secondly is U.S. in Baby Nutrition, can you tell us how your business is performing there? Thank you.

Mark Schneider:

Robert, the comment that I made about the U.S. was about Confectionery – excluding Confectionery, not excluding Prepared dishes. But I can just say a few words about U.S. Frozen. So we believe in the category and we have embraced new trends. The category growth has improved and it is now healthier than it was. We have a business that we are happy with because it has good cash flow and margin. We have different growth trends by product. So we have to mention Pizza which is doing well. We have a lot of innovation there with *DiGiorno*. The *Hot Pockets* is doing well as well and we re-launched part of the offering with a more healthy proposition. We are suffering a little bit more maybe on some of the subcategories like Stouffer's because of tough comps, Lean Cuisine is a little bit softer. But overall, we are fully committed to the category.

U.S. Baby food, it's a category where we have invested significantly over the last few quarters. We are renovating part of our offerings and we moved into organic and natural as well. So this relaunch is in progress and it's too early to draw any conclusion.

We had some issues in Q1, but which were temporary issues in terms of inventory shortages for pouches. But on the other hand, we did well with Infant Cereal. So I think that we need a little bit of time to assess exactly the outcome of this re-launch and repositioning of the *Gerber* brand into natural and organic.

Question on: Price deflation
--

Alex Smith, Barclays:

Hi, good afternoon. I was just curious looking across your product categories, the only one which is showing price decline in Q1 is Confectionery. Presumably, Brazil is a big moving part of that, I think it's quite a big business for you, but then your Zone EMENA is also showing price deflation. So, I was just wondering is the price deflation in EMENA really predominantly down to Confectionery and if so, what's the driver behind that and are you therefore not seeing that much price deflation in your other categories in EMENA? Thanks.

François-Xavier Roger:

I confirm that Confectionery is a category where we had significant negative pricing, but we had very good RIG as well during the quarter as you know the early Easter help little bit there. The negative pricing was largely led by Brazil indeed, so which you picked that up very well.

In EMENA, we had some negative pricing as well versus last year, but mainly came from Russia actually, so it was not so much from Western Europe, so it was mainly coming from Russia, which is what I mentioned along with Brazil and Sub-Saharan Africa.

End of Q&A session

Dessi Temperley:

Okay. Thank you, Alex. With no further questions, we come to the end of our session today. Thank you, Mark. Thank you, François. Thank you very much to everybody on the line who attended the conference call today.

If we couldn't answer all of your questions or if you need more details you know where to find the Investor Relations team and we look forward to speaking to you again at our half year results conference call in July.

Thank you and goodbye.

Mark Schneider:

Thank you.

End of Transcript