2013 HALF YEAR RESULTS CONFERENCE CALL TRANSCRIPT

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Speaker:

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Roddy Child-Villiers, Nestlé SA, Head of Investor Relations

Slide – Title slide

I am Roddy Child-Villiers. Welcome to our first half results conference call and thank you for tuning in. I am here with Wan Ling Martello, the Nestlé CFO.

As usual, we will start with a presentation and then open up for discussion.

As we always have financial journalists and the wire services listening to our results calls, we have also opened the discussion up to them should they wish to join in - if you are listening on-line, rather than by phone, the number to join the conversation is on the invitation.

As always, this call is being recorded.

I would like just to remind you that we are reporting off the base of the restated 2012 numbers following the various accounting changes this year, including employee benefits and Joint Ventures that can no longer be proportionately consolidated.

Slide – Disclaimer

I will take the safe harbour slide as read and will hand the call over to Wan Ling.

Wan Ling Martello, Nestlé SA, Chief Financial Officer

Slide: Highlights

Thank you, Roddy. Good morning and good afternoon everyone. We have about an hour an half together, so let me spend 25 minutes or so to update you on how things are going so far this year, and leave enough time for questions.

Let me start with some key takeaways. I am happy to say that these are quality numbers, well balanced for growth, margin improvement, reinvestment in growth and cash flow performance.

The Group's RIG accelerated during the first half. The Group's margin was up 20 basis points, and marketing investment was up 60 basis points

The cash flow performance was strong & working capital remains on a good trend.

Of course, we also have challenges, and I will highlight those in my presentation.

Let me give you a little more detail. The good news at a group level was the acceleration in RIG from Q1. Yes, pricing was low, but we should expect that in a generally deflationary environment.

The input cost situation may have reduced our pricing, but it has benefited our trading operating profit margin. The margin was up 20 basis points, even after reinvesting 60 basis points in marketing spend.

And earnings per share were up, both in reported as well as in constant currencies. So, it is clear that we have succeeded in delivering quality, profitable growth in the first half of 2013.

Our cash flow was strong, driven by our improved operating performance, despite the tough comparable.

Slide: Highlights

Now turning to some summary comments on our business performance:

Our continued growth in developed markets is clearly noteworthy. Emerging markets grew over 8%.

We are double digit in Latin America and Russia, over 7% for AOA as a whole, though double digit in many markets there, and single digit in the rest of Eastern and Central Europe.

Looking forward to the rest of the year, we expect continued good momentum in RIG to enable us to end the year with organic growth of around 5%, together with an improvement in our trading operating profit margin and underlying earnings per share in constant currencies, as well of course as an improvement in capital efficiency.

So now let's get a look at the half year numbers, and look at the Zones and globally managed businesses.

Slide: Operating segments: Growth

So let's do first of all Growth. You can see from this slide that they all delivered positive RIG and Organic growth. The majority accelerated their RIG during the half. Nutrition did not and RIG for the Americas was flat.

All saw their pricing reduced. So [this is] a pretty consistent picture

Slide: Operating segments: Margin performance

Now the margins. Europe was slightly down. I think this was a reasonable performance in view of the tough competitive environment, the challenges around product recalls and label scares in Q1, and the fact that marketing spend increased in the period.

The Americas was up. A good performance. Again marketing investment was up. There has been good work done here in terms of structural costs and streamlining of operations. Also, the Zone had to overcome continued inflation in Latin America, reflected in the relatively high pricing for the Zone

Moving now to Asia, Oceania and Africa. AOA delivered 20 basis points margin improvement. The Zone has been the brunt of external criticism recently, focused on its top line performance. I would like to give the Zone credit for delivering margin improvement in a period characterised by slowing economic growth and the destruction of a major regional factory. It also had an extremely strong working capital performance.

Nestlé Nutrition saw margins fall 60 basis points. This is in part explained by the expected Wyeth dilution. The other impact was Weight management, which has continued to contract. We are restructuring the *Jenny Craig* Centres and taking other steps to address the situation. The core Infant Nutrition business is performing well.

Nestlé Waters held its margins flat. Bearing in mind that H1 2012 has the leverage from strong volume growth and H1 2013 did not. So this was a good achievement, enabled by their focus on cost management, as well as the mix benefit in terms of both brand growth and geographic growth.

There was also a good improvement in our other activities, which includes Nestlé Professional, Nespresso and Nestlé Health Sciences.

Slide: Product Groups: Growth

I will now move to the product groups, and again, I will start with growth.
The story is similar here, with pricing reduced everywhere but a mixed picture on RIG.

There was a good improvement in the RIG of Powdered and Liquid, driven in part by Nespresso's acceleration to double digit growth for the first half, in line with Roddy's promise at our last sales call. The Powdered and Ready-to-drink segments also accelerated.

Dairy & Ice cream both improved their RIG during the half, and both were positive. RIG in Prepared Foods remained slightly negative. Ambient accelerated slightly, but there wasn't much change in the other segments.

The RIG in Confectionery's first two quarters is always impacted by the timing of both Easter and Chinese New Year. So after a strong Q1, it normalised during the second quarter.

The RIG for PetCare continued with its good momentum. This remember, despite the *Waggin' Train* recall in the US.

Slide: Product Groups: Margin performance

Next up is the Product Groups' margins.

Powdered & Liquid was up 100 basis points. Our Coffee activities & malt beverages both improved.

Dairy and Ice cream was also up. Ice cream being the main contributor.

The margin for Prepared Dishes & Cooking Aids was up. Frozen being the main driver. In the case of Frozen food and Ice cream, the margin improvement was driven mainly by structural cost savings in the US.

Confectionery's margins were down. There were a number of drivers here. First, the highly competitive environment in the sector generally speaking. Also, we had a very significant increase in marketing spend in Latin America, relating to the Confederations Cup as well as the up-coming World Cup.

PetCare's margin was down. Although I have to note the underlying operational performance of PetCare was very strong but the improvement in margin was cancelled out by the costs of the *Waggin' Train* recall. You can see this in our financial statements, published online today.

I would like to pause for a moment here and come back to the Group's overall pricing. Clearly, as we beat consensus with our RIG performance, we did not on organic growth, pricing was the biggest disconnect versus your expectations.

My view on the change between Q1 and H1 pricing we have reported is that it reflects more the current inherent volatility in our market place than it does a trend for the rest of 2013. As you have seen in these last few slides, we have very varied levels of pricing whether by geography or category, ranging from strongly positive in the Americas to negative in Europe, from flat in Powdered and Liquid beverages to strongly positive in PetCare.

One would ask what is happening. Weaker currencies in Latin America are driving inflation there, even in categories such as Chocolate, where the US dollar cocoa price has fallen, we have responded with pricing.

On the other hand, in Coffee for example, where the commodity is sharply down over the last 12 months, our lower pricing reflects this in key markets such as the UK and Russia.

Or, think about milk. We are seeing high raw material prices and, again, our pricing reflects this in our Dairy and Nutrition businesses.

As you know, we do not make pricing decisions here in Switzerland. Those decisions are made locally by our people in the markets, in view of their local cost pressures and competitive environments. And those pricing decisions are made to drive profitable growth businesses. Their objective is therefore not to take price for the sake of taking price. Their objective is to ensure that they are at the appropriate price points.

The fact that we have delivered an operating performance that includes both increased marketing spend and an improvement in our margin demonstrates that our people around the world have got their pricing right, enabling us to drive RIG as well as margin.
As an example of this look at Powdered and Liquid, it may be at the low end in terms of pricing, but it is at the top end in terms of margin improvement. Doing the right thing for consumers and therefore doing the right thing for our business.

And there is nothing new here. You go back over the last ten years, before we changed our revenue reporting to net-net sales, and you will see that pricing dipped below 2% on several occasions. We have always been, and will always be, responsive to changing local conditions, focused above all on delivering profitable growth.

And that for me is the key point. Not whether we hit a price target for the group, but whether or not we are delivering profitable growth. And in the first half of 2013 we have certainly done that, while continuing to invest for the future with a big step up in marketing spend.

Slide: Regional Growth

Moving to the next slide, Regional Growth. Let me dig down deeper into our performance, and I am going to do this on a regional basis for total Food and Beverage, as many of the trends and challenges are common across the different divisions.

So on this slide, by way of introduction, is the geographic split of the growth of all our businesses, including the globally managed ones.

The Americas finished the half basically unchanged from Q1 for organic growth. North America was slightly weaker due to reduced pricing. Latin America, on the other hand, saw good RIG momentum, with pricing remaining firm.

Europe ended the half slightly weaker than Q1 for organic growth, as Eastern & Central Europe experienced lower RIG and price. A number of the regions in Central and Eastern Europe are struggling from a macro perspective.

In Russia, where we have taken a number of initiatives over the last couple of years, both structurally and tactically in the market place to improve on our competitive position, RIG was double digit. Western Europe accelerated slightly, due to increased RIG.

AOA ended the half basically unchanged from Q1 for organic growth. The increased RIG was almost matched by the reduced level of pricing.

So the trend as you can see here is the same in all three regions: RIG acceleration. There was no material change in the organic growth of the developed or emerging markets: and the trend was the same: more RIG in both, less price.

Those were some introductory remarks. Let's now have a look at each region in detail and share with you all where we are doing well and where we have challenges. I will start with the Americas, in North America.

Slide: The Americas

In North America Ice cream is a challenge in segments that lack differentiation, such as premium, though we are gaining share. Where there is differentiation, such as in super-premium, growth is definitely more dynamic. *Häagen-Dazs*, for example is up near double-digit.

PetCare is a mixed picture. A key strategic question for us in PetCare is the growth of the specialist retail and "natural" segments, where we are clearly under-represented. We are of course looking at various approaches to address this, but it will take some time. And I could equally describe this as an opportunity much like it is a challenge for us.

A more immediate challenge is some segments in Dog, where we have lost share recently after consistently gaining share over the years. We are fighting back, and the latest trends suggest successfully. On the other hand, we are doing extremely well in our Cat, treats and litter segments. And, to put the challenges in context, the business continues to perform well from a top-line perspective.

The Frozen entrée and Pizza categories continue to struggle for growth. The competing restaurants are pushing hard on the "fresh, not frozen" theme. We are responding on this with our own messaging under the theme, "Balance your plate". In Pizza, home delivery continues to compete on a very promotional basis.

In this subdued environment, *Stouffer's* is actually having a good year, and *DiGiorno* has taken share, and both are RIG positive.

The bigger challenge in Frozen is in the Nutritional segment, which continues to contract. This is impacting our weight management business, *Jenny Craig*. As I have already said, we are making significant changes there. *Lean Cuisine* is also being impacted. We have launched some new lines, but these are not changing the overall dynamics in the sector.

Moving on to Waters, Waters environment is tough, with private label players pricing aggressively. We have taken a more profit-focused approach which has of course impacted our market share. More positive on Water though, is the continued growth in the market, and in our business. The premium brands, *S.Pellegrino* and *Perrier*, are performing well.

Infant Nutrition is performing extremely well in North America, both in formula and in meals and drinks. Innovation is clearly playing a part in both areas, and market share performance in formula is good.

Also going well are Chocolate, Coffee and *Coffee-Mate*.

Finally on North America, you might recall we put new management into Nestlé USA less than a year ago. Early signs are encouraging: shorter term market share trends are positive, there was positive RIG for the half, the margin performance was good, and they are tackling structural costs and business complexity. There is obviously still room for improvement, but so far so good.

Now a few words on Latin America. The key challenge in the region is the macro economic situation, including the weakening in some currencies. But this is something that we are used to, something that we are able to manage.

Input costs are another challenge, as those weaker currencies mean that the fall in the dollar price of raw materials is not reflected in local currencies. In that environment, we have delivered double digit growth with a good contribution from RIG.

Among categories, there are no major challenges. Doing especially well are PetCare, Powdered and Liquid beverages, Culinary and Biscuits, Infant Nutrition, Waters and Professional, all growing double digit.

S**lide: Europe**

Let’s now move to Europe. The challenge here, should be no surprise, it is the macro environment and everything that springs from it: whether it is the recession in Southern Europe, slowdowns in parts of East and Central Europe, austerity programmes, increased taxes, falling consumer spend, increased competition. I could go on and on, but you get the idea.

Given all of that, the fact that we are growing our RIG, suggests that there must be a few things that are going well. The Zone’s customer service levels are high. Innovation continues to flow, and existing launches have their ranges expanded, or are extended into new markets. With a lot of activities, it is not surprising that the Zone’s marketing spend was up.

Of course, not everything in Europe is going well, no surprise, so let’s have a look at the challenges. Southern Europe is extremely tough. Now this cannot be new news. We talked about challenges in Q1 such as labelling issues in the industry. We are seeing signs of improvement in the affected categories.

Ice cream also had a slow half.

Water is having a challenging year, after the strong growth in 2012, the competitive environment has intensified. It is the same story as in North America, with increased promotional activity. Our best performers are the more differentiated waters.

Nestlé Professional has had a weak start. Clearly there is a link to the macro environment here, though I have to say that the Beverage solutions continued to perform well.

I touched in my opening comments on what is going well. Here is a little more detail. The Zone’s growth drivers, such as premiumisation, value focused offers, and Nutrition, Health and Wellness, have strong traction.

PetCare was again a key growth driver for the region.

Coffee activities, consisting of Nescafé, Nescafé Dolce Gusto and Nespresso, continued to be growth enhancing.

Key markets performed well, particularly in the UK, in Germany and in Russia.

Infant Nutrition has good RIG in the region, with positive growth in both France and Germany.

Slide: Asia, Oceania and Africa

Next up is Asia, Oceania and Africa. The environment in AOA continues to be relatively buoyant, even though there has been a slowdown during the last 18 months. We are also seeing the effects of government responses, such as the austerity programmes in China, and the Zone continues to be impacted by civil unrest and natural disasters.

Let's have a look at some of our challenges. The loss of the Syrian factory in Q1 has had an impact, even if we were able to restore supply by the end of June, albeit at lower margins. We are in the process of establishing a new facility in Dubai that will replace the Syrian factory on a permanent basis hopefully next year.

Our Coffee activities are a bit of a mixed picture. Some of our PPPs are fighting tough competitive battles in countries such as the Philippines, but we are doing well in Premium, and in systems, both in developed and emerging markets in AOA, and in ready-to-drink.

Nestlé Professional is having a tough start to the year in the region. Its biggest market there is China. It also has been impacted by the austerity programme, as well as a slowdown at a major customer. Elsewhere in the region, the business is going well.

Looking at the more positive aspects now in AOA. Powdered Beverages, especially *Milo*, is performing extremely well. And in Dairy, Bear Brand is outstanding.

CWAR, which is Central West Africa Region, picked up pace, doubling its Q1 organic growth in Q2, as Roddy said it would be on the Q1 call.

China continued to grow double digit but has slowed a bit, after the New Year benefit to Q1. Having said that, we in China grew faster than the market.

Indonesia, Malaysia & Singapore, are performing extremely well. Category highlights included *Milo*, our Coffee activities, Dairy and Chocolate.

The South Asia region, which includes India, picked up pace as Ambient Culinary continued to perform well and tea enhancers accelerated sharply.

The developed markets in AOA are delivering positively, driven by our Coffee activities, Chocolate and *Milo*.

The Nestlé Infant Nutrition business grew extremely strongly, not just in China, but across Asia and Africa. Formula and Cereals are both performing well.

Wyeth Nutrition, as you all know, is not included in our organic growth, but I am happy to report it is meeting our expectations.

Finally, Waters in AOA performed well in the first half.

Slide: Margin Bridge

Let's now move to the Group numbers and start with our trading operating profit performance. Here you can see our usual margin bridge. The headline story is the twenty basis point improvement in margins to 15.1%.

Let me give you a little more colour. We have taken advantage of an improved cost environment, driven by raw materials and further enhanced by our efficiencies. We have overcome unexpected costs around the world, such as the recalls in both Europe and the US, and the factory mentioned earlier that was destroyed in Zone AOA. We have increased our marketing spend by 60 basis points. And our consumer facing spend is up 15% in constant currencies. And we have added that 20 basis points to our margin.

In summary, our H1 margin performance reflects three things. First, we have benefited from a lower input cost environment. Second, we have the ability to invest dynamically in marketing. Third, our efficiency programmes over the years means that we convert more sales into profit.

Also, for those of you who continue to benchmark us against our old EBIT, there is a bigger margin improvement at that level. That speaks to a high quality first half.

I would like to take the opportunity to say a few words on the trading operating profit margin for the full year. I am aware that in February, we guided to a second half weighting of margin improvement, which could lead some of you to think that we will further improve from our first half performance.

A few words of caution. First, our operating performance in the first half was already good, so it is hard to be materially better in the second half. Second, the first half was more benign in terms of raw material pressures and comparables than the second will be. Third, I have talked about being more active in how we manage our portfolio. It is difficult to forecast specific timings but it is clear that a more active approach brings with it likely increases in other income and expenses.

That all said our commitment remains an improvement in the margin in constant currencies.

Slide: Income Statement

Here is the rest of the income statement.

Our financial expenses increased in line with our higher net debt, but fell as a percentage, no surprise, due to our growth, and the lower interest rate environment.

Taxes were also higher, but we are not changing our full year guidance of an underlying tax rate around 27-28%.

Earnings per share are up 3.4% reported, and 7.2% underlying in constant currencies.

Slide: Cash Flow and Working Capital

Next up cash flow and working capital.

Our cash flow is strong. We had an extremely tough comparison due to our 2012 cash flow performance, you should know that. But we remain at a similar level in 2013. This was driven by a good operating performance and improved cash conversion, with the major off-set being a significant increase in taxes paid, due to timing differences.

On working capital, our cash conversion cycle improved by 6 days. Also total working capital has decreased in absolute value versus June 2012, even though we have increased our sales and have acquired Wyeth. A very positive trend.

Slide: Group – High Quality Performance

Let me now wrap things up.

It has certainly been an eventful first half. I think we have been successful in navigating through the various challenges that we have faced, as well as continuing to drive successfully where we are winning.

We wanted to be transparent in highlighting for you what's going well and where we clearly have work to do.

I would like to end by underscoring three key points. First, from the Group perspective, the quality of our numbers, well balanced with RIG acceleration, margin increase, together with the marketing investment going up and good cash flow performance & positive trend in working capital

Slide: Broad Based Operational Performance

Second, from an operating perspective, the results are also broad based:

The Americas progressing on both top and bottom line

Europe despite the macro economic situation continuing to grow and to invest for growth

Zone AOA improving margin despite cost pressures, and driving RIG

Nutrition's very strong Emerging market and US performance

Water's positive growth in a difficult season

And, last but not least, Nespresso double digit in H1.

Slide: 2013 Outlook

And third, for the rest of the year. Our good RIG momentum will enable us to deliver organic growth of around 5%, together with an improved margin and underlying earnings per share in constant currencies, as well as improved capital efficiency.

With that we will now open up the discussion.

Q & A Session

Questions on:	**Achieving Organic growth in H2** **Structural costs and business complexity** **Expected performance in Z-AOA for remainder of the year**

Warren Ackerman, Société Générale:

Good morning Wan Ling and Roddy, I've got a couple of questions. The first one, looking at your full year guidance now of around 5%, it has nudged down slightly from the low end of the 5% to 6%. You did 4.1% in H1, so you need to do around 6% in the second half. That looks, on the surface, to be quite a stretch. I'm just wondering, what are your assumptions for the second half for some of the key elements, of pricing and Zone AOA growth and any other moving parts that you want to call out at this stage for the second half in terms of organic growth to get you to around 5%? That's the first question.

Then the second question, you made an interesting comment around North America and the new management team. You talked about taking out structural costs, some business complexity. I think that was a pretty term that you used, Wan Ling. Can you maybe give us a bit more colour as to what that means? And is this just an issue in North America, or are you looking at structural costs and business complexity in the other Zones given the current environment that you face?

Wan Ling Martello:

Thank you, Warren. Let me answer your first question about the outlook. You are correct; we are guiding around 5%. And you are also correct, Warren, this is a stretch. It's interesting; I'm fairly new to the organization. And, like you did, you can do the math. And some of my colleagues are optimistic that we can make that number, but it is not going to be easy. And I completely agree with you, it's going to be a stretch.

In terms of North America's complexity and structural costs, they're looking at everything from infrastructure costs, to how they go to market. And yes, this is something that Paul Greenwood in the U.S. is doing, but it's something that we will be looking at on a broader basis, so not just in the U.S. but also in other regions.

Warren Ackerman, Société Générale:

Wan Ling, can I just maybe just push you a little bit on the second half? I mean, obviously, Zone AOA has been in the spotlight for the last few quarters. And you did see a slight acceleration in Q2, I guess, in line with your thinking, but given the easier comps in the second half of the year, are you still confident that Zone AOA can achieve sort of high-single-digit growth in the second half of the year to leave you in a better place for the full year? Or have things changed in the quarter so that you are perhaps, on the margin, less confident on that uplift in the second half in the Zone AOA?

Wan Ling Martello:

So Warren, you are exactly right. There are easier comps in AOA as we go into the second half. But there are other things, like we've talked about issues that were in Q1 that we're obviously recovering from, much like the factory that was destroyed in Middle East. And so we'll see. Pricing obviously is a local decision, so a lot depends on input costs as well as competition. So we do not, as you know, guide on pricing. And so it's lots of moving parts.

Roddy Child-Villiers:

Yes. I think, also, I'll just pick up on Wan Ling's comments in her presentation about the volatility in the pricing and the change between Q1 and H1, not being so much pointing to a trend through the year but more just volatility within quarters. And as Wan Ling says, there are other issues in different regions of the world that also provide perhaps more momentum in the second half than the first half. And clearly, one of those is the situation in Europe with the bounce back from the labelling-related recalls. Also of course, we've had a pickup in the season for Ice cream and Water, so there are some other more positive drivers which support our confidence in terms of the RIG momentum in H2.

Wan Ling Martello:

Yes. But Warren, I will go back and underscore what you said. It is, in fact, a stretch. But it's the organization's intention to get there, but it is a stretch.

Questions on:	**Pricing** **Margin and effect of Wyeth on H1 margin**

Céline Pannuti, JP Morgan:

Again, just to understand what you said here on guide on pricing, with my first question, I would like to [ask] if you could give a bit more commentary around what you said in the presentation that you think that Q2 pricing will not recur in the rest of the year. Can you explain a bit what you mean there? Has there been any specific promo activities in Q2 that will not recur? And are you as well expecting some local pricing in emerging market to pick up to recover FX volatility in emerging market?

And then my second question is around margin. There, I understand that you were saying that it was more going to be H2 weighted, and now you're saying it's maybe more balanced. Is that the way we should look at it? And could you as well explain why Wyeth is dilutive to your margin in the first half?

Wan Ling Martello:

Yes. Thank you, Céline. In terms of margin, in my presentation, I had indicated - you've heard us talk about more focus in terms of portfolio management, and so timing, it's difficult to predict, but we are actively looking at our portfolio and what we need to do, so there will be restructuring. Whatever it is, and we can't really say what it's going to be, there will be some volatility in terms of other expenses and income. And so we said H2 weighted in Q1, but we did not anticipate raw material costs to be as good as in the first half, so that's not going to be repeated. That, on top of activities that we're doing relating to portfolio management, is what's guiding us to tell you that H1 improvement in margin is likely not going to be repeated in H2, so for the full year. In terms of pricing, do you want to take pricing?

Roddy Child-Villiers:

Yes. Just also on the margin, on the Wyeth question you asked. Wyeth is accretive to the group. It is not accretive to Nestlé Nutrition. That was the point we made. It's actually, the point we made at the time of the acquisition as well, there's no change in message there. On the pricing, all that we're saying is if you just do a straight-line trend from Q1 to H2, you'd end up with probably no pricing at all in Q3. That's not the case. This is more about volatility in the trend. That's what we're saying. Also, the pricing started to decrease already in H2 last year, so there's also a comp benefit, in a sense, to the pricing.

Wan Ling Martello:

I want to come back to Wyeth, though. If you go back to our presentation when we announced the Wyeth Nutrition acquisition, you will recall that the Wyeth margin was accretive to the group but not accretive to the Nestlé Nutrition margin.

Céline Pannuti, JP Morgan:

All right. And on pricing: So pricing turning quite negative in Europe in the second quarter, is that something we should continue to expect?

Roddy Child-Villiers:

Yes the pricing in Europe was driven fundamentally by Coffee. And you might remember that even last year, we talked about this, and we've made a major reduction in the Coffee price Russia. That was second half last year, and that's an example of one of the pricing actions that we did last year that will not be in the comp for H2 this year. But Coffee is the key driver of the weaker pricing in Europe, but it's also fair to say that most of the categories in Europe have got less pricing than they had earlier in the year.

Celine Pannuti, JP Morgan:

And can you give a bit which categories are less pricing? Because this pricing on Coffee, as you said, was already in the second half of last year. And here, we really see a worsening of the pricing in Europe.

Roddy Child-Villiers:

Well, as I just said, the pricing is weaker, to a certain extent, across basically all the categories in Europe.

Question on;	**Pricing in China**

Silke Koltrowitz, Reuters:

Actually, some of my questions have already been answered, but I wanted to ask specifically about pricing in China, if you could give us certain guidance for how that developed in the first half and what you're expecting there in the second half. And also, can you give us in that pricing outlook the input costs you are expecting in the second half? What will the impact be in H2?

Roddy Child-Villiers:

Yes. The -- our pricing in China has been pretty minimal. Our growth in China is really driven very predominantly by real internal growth, not by pricing. And in terms of the input cost, the input cost picture, generally, our guidance remains what it was at the start of the year, which is that we expect to see low-single-digit cost pressure.

Wan Ling Martello:

Yes. The second half input cost in that situation should have less tailwind than the first half.

Questions on;	**Lower growth in Mexico** **Trends in France and Germany** **Lean Cuisine**

Alain-Sebastian Oberhuber, MainFirst:

Wan Ling and Roddy, I have three question, more on the regional side. First could you tell us what happened in Mexico? You mentioned that there is lower growth than before. Because in the past we had almost similar growth in Mexico than in Brazil. Maybe you can elaborate a little bit on Mexico.

Secondly, what are the current trends in France? Have you seen an acceleration in volume in France as well? And then, specifically in which category the same is true for Germany?

And the last question is about Lean Cuisine. We see now for, I think, the third quarter already that's a pretty difficult category. Could we see a bottoming-out of that category probably in the next one to two quarters? Or what is your knowledge about that category?

Wan Ling Martello:

To the question in terms of Mexico. Mexico was impacted by Coffee. Our Dairy business in Mexico continues to do very well, less pricing. And so that's sort of the situation in Mexico. In terms of Lean Cuisine, the whole category has continued to contract. And we being a category leader, we're obviously affected by that. And we also have the responsibility and the obligation to try to get that reinvigorated. We have launched two products, two new products, *Honestly Good* as well as *Salad Addition*. And I said earlier in my presentation that's not -- so far, changing the dynamics in the category. So our team in the U.S. continues to explore different things. I was visiting with Paul Greenwood in the U.S. a few months ago, there are indeed a lot of new products in the pipeline, and so hopefully, that would make a difference sooner than later.

Roddy Child-Villiers:

And on France, you may remember that we had a fantastic year in France last year. So clearly, challenged by the comps. The business started the year quite weakly in Q1, and it has picked up a little bit since. And of course, part of that pickup relates to, again, the costly horsemeat related recalls. But we are seeing a slight pickup in France in Q2, so hopefully, that momentum will continue into the second half.

Questions on;	**Commodity issues in H2** **Pricing in H2**

Jon Cox, Kepler:

I wonder if I can just come back on this whole commodities issue in terms of the impact in H1. And then you seem to be saying you're going to start picking up headwinds in H2. In just sort of the way you normally hedge, excluding Coffee at the moment, but typically, you hedge, say, 6 to 12 months forward. I'm just wondering, you're saying it seems to be, Coffee in H1 was the main driver of that gross margin gain. So what is unwinding in H2? Why would there be more headwinds in H2 than there were in H1? That's the first question.

And then just in terms of the overall environment with regards to the pricing question. You seem to be saying there's lots of different factors going to happen at pricing. Should we just expect a continuation of this sort of 1-point pricing seen in Q2 that would really just go through the rest of the year or -- that seems to be what you're saying or are you saying it could actually start to go up again as we go through the year?

Wan Ling Martello:

Yes. Thank you, Jon. On your first question in terms of COGS, first of all, we do not share with you what our hedging policy is. But across commodities, we can hedge anywhere from weeks to months, and so that varies depending on the commodity. And obviously, we work with our procurement folks who are really good, so I can't tell you exactly what category is hedged and for how long. In terms of the tailwind that we picked up in H1, clearly, it's not just input cost being favourable. There's obviously pricing impact, there's volume leverage. There is also efficiencies that we have done in terms of conversion. So the favourability you're seeing in H1 is not purely just input cost. So it's a whole host of things that's coming together.

And when we go into H2, first of all, it's already improved. In H2, it's a tougher comp is what I should say. In terms of pricing, you know we do not guide RIG or pricing RIG guide on an OG, from an OG perspective, Jon, you should know that. And we have said in the presentation we expect pricing to be volatile again because of a whole host of reasons, depending on market, depending on input costs, depending on competitive landscape that we'll see. But our overall guidance for the year is around 5% for organic growth.

Roddy Child-Villiers:

Yes, and I think that the key message on commodities is that the commodities began to fall already in H2 last year. That, therefore, provides a tougher H2 for this year than an H1. That's the key message.

Question on:	**Currency impact on sales**

Bloomberg Participant:

I have 2 questions. The first, which currencies have impacted your sales in the first half of the year? And how will foreign exchange rates impact your sales in the second half of the year?

Roddy Child-Villiers:

Well the biggest moves in currencies have been in Latin America, particularly, obviously, Brazil.

Wan Ling Martello:

And Venezuela.

Roddy Child-Villiers:

Venezuela, they're the biggest ones. How we'll be impacted in H2 clearly depends upon how the currencies evolve. I think the important thing is, from a group perspective, we did not have any impact on earnings, either GOP margin or earnings per share, from currencies. But we always, every year, we have an impact on the top line.

Wan Ling Martello:

Yes. Last year, we ended with a positive impact, so we don't guide on what we expect for the full year this year. Did I answer your question, Morgan?

Bloomberg Participant:

I see in the release that actually sales has been impacted in the order of 0.9%. I just wanted to know if what if you expect this to remain the case in second half of the year.

Wan Ling Martello:

Yes, Morgan, you are exactly correct, that was 0.9%. We do not guide for the balance of the year, we don't forecast how currencies are going to move. Clearly the Swiss franc is getting a bit stronger, but we'll see. A lot can happen between now and December 31.

Roddy Child-Villiers:

We could easily give you a number of today's spot rates but it won’t be the right number by the year-end.

Wan Ling Martello:

We're not going to do that.

Roddy Child-Villiers:

Is not really very helpful.

Morgan Lapeyre, Bloomberg:

Okay. But compared with other year periods, how was that, the performance?

Roddy Child-Villiers:

Well, it's incredibly volatile. Last year, we had a positive contribution from currencies. This year, we're having a slightly negative contribution from currencies. But it's simply that we are present, fundamentally, in every country in the world. We're always going to have these currency swings because we report in Swiss francs. It's not something that we try to hedge or manage. We run the business locally in local currencies and then we just convert into Swiss francs, then we report.

Wan Ling Martello:

Yes.

Roddy Child-Villiers:

And that's as simple as it is really for us.

Wan Ling Martello:

Yes. I mean, having said that, you saw the trend in the second half of last year started to be more favourable. And so as we go into the second half of this year, it's going to be a tougher comp, if you're just looking just at FX.

Roddy Child-Villiers:

Yes.

Questions on:	**Stock levels** **Coffee pricing** **Working capital**

David Hayes, Nomura:

Two for me. Just on the Zone AOA, you talked at the first quarter about too much stock in the system. I just wonder whether you've seen that now normalize and at what point during the second quarter you saw shipment patterns return to normalized levels. And then secondly, just on Beverages, the margin, obviously very strong, up 100 basis points. You talked about Coffee prices actually coming off. Is there a risk that pricing-wise in Coffee, you're still a bit high, and that margin, effectively, is slightly overearning and that you expect prices in Coffee to come in the second half, and therefore, the margin there to come in as well?

Wan Ling Martello:

Yes. Hi David, in terms of destocking, it varies by market and category. So in markets like Philippines, Thailand, we are seeing a recovery and doing better. In terms of Coffee pricing, it's going to vary by market.

Roddy Child-Villiers:

David, we've been extremely aggressive on pricing so I'll be extremely surprised if we are -- however you just phrased it, overearning or whatever the phrase was used, extracting too much profit. We've been extremely aggressive on pricing. And we are managing locally our price points extremely carefully, and you see that in the volume growth as well.

Wan Ling Martello:

Yes. I would say that, David, we have done a fair bit of adjustments in terms of Coffee prices. So I would characterize it that way.

David Hayes, Nomura:

Just going back to the first question. So there's still a reasonable amount of shipment disconnect then, that may wash out mostly in the second half? I'm just trying to understand where the consumer take is a bit better, and whether that effect will disappear in the second half?

Wan Ling Martello:

No. David, in terms of destocking, we have improved significantly. So we're not anticipating any meaningful impact going into H2.

David Hayes, Nomura:

Okay. Can I just ask one other question. Just on working capital, obviously, CHF 1.9 billion outflow, first half, but seasonally, we see that outflow and then a catch up. You talked about structurally effectively better working capital. Would you say that you'd expect more than a catch up in the second half, that working capital will be a net inflow, or at least flat? Or do you see that as a big dynamic in the second half to catch up the CHF 1.9 billion?

Wan Ling Martello:

No, it would still be an outflow because we're growing, and so I don't anticipate that. To answer your question, it'd still be an outflow

Question on:	**Cash Returns** **Deceleration in RIG in Nutrition** **Nespresso and soluble coffee pricing**

Eileen Khoo, Morgan Stanley:

Just a couple of questions from me. The first one is on cash and returns. Could you update us on the internal exercise that you've been carrying out in terms of benchmarking returns? What the progress is there? And then on cash as well, pretty good performance in operating cash flow. Just wondered whether you could update us on your thoughts in terms of cash returns?

And then second question is on Nutrition. I was wondering why there's this big deceleration in RIG. It surely can't all just be Weight Management given the strong double-digit performance in Infant and Baby Nutrition? And then on Coffee, I understand that you've taken actually price increases for Nespresso in the U.S. recently. Could you just confirm this, and also just update us on how your price reductions in Soluble have helped your market share in some markets like Philippines, for example?

Wan Ling Martello:

Yes. Eileen, let me answer the first question, as I think a lot of you have heard that there's renewed focus on return. And so we've talked about, at CAGE and at different road shows, that we have an enhanced sort of portfolio management tool that has been rolled out to the rest of the organization. This was started last year and completely rolled out now, for some time I think; a couple of months ago. It's been really good to see how it's been embraced by the organization. I've talked about this many times. What it does is it provides us with a common language across the organization. So whether you are managing Coffee in the Philippines or you're managing Coffee in China, and up and down the organization, whether you're somebody sitting at the EB level or you're a BEM, which is a Business Executive Manager, running a category in a geography. And it's great to see, we just finished what we call our MBS season, which is Market Business Strategy. And it's great to see markets coming in, saying that, "Look, we were going to ask for investment in x, y, and z, but we've run this exercise and we know it's actually not really value accretive". So to your question about this renewed focus on returns. I'm really happy to say that it's gaining traction and, clearly, it's an exercise. It's not an end all and be all tool but it provides a common language, and it provides a common framework so that discussions don't get too emotional. I'm not saying it's still not emotional. And so now, we're seeing sort of like a bottoms-up analysis being done. And obviously top-down, at the Executive Board level, we're also doing analysis, looking at bigger sales on a broad base basis. So that's going really well.

Roddy Child-Villiers:

On Nespresso, frankly I don't know what the Nespresso pricing strategy is in different countries around the world. But I do hope you're right. You have taken pricing in the U.S. because I know that when you compared our capsules to the competitor capsules from other manufacturers, we represent extremely good value, so if they are closing the value gap, that's good news. On Nutrition, when I did the Q1 call, I did call out China as having organic growth above 40%. I did say at that time that that was not a sustainable level of growth, and so that has come off a bit. That's obviously impacted the Infant Nutrition growth number. Also, we've seen there’s volatility, we've got a little bit lower growth in Russia and Brazil, though still double-digit, still very strong. We picked up in France and Germany so there's different levels of performance. But the big swing really is China, but China continues to be growing very, very strongly indeed, and we continued to gain share. And your other question was on -- just on the cash returns piece. But I mean, clearly, we had any measures on cash returns, it will be in the press release and so obviously we don't at the moment.

Wan Ling Martello:

I do want come back to Nutrition, we're very, very pleased with the Nutrition business across all of our geographies.

Questions on;	**Regional management decision making in China re pricing** **Projected margin growth** **EPS and DPS**

Eric Chow, Value Partners:

We are investors or existing shareholders based in Hong Kong. And first of all, I'd like to thank Roddy and his teammates, taking the time to visit us at Hong Kong in May and meeting us. We hope you come back soon. We have got two questions. First of all, related to China, your Nutrition team has been very fast in terms of responding to the recent investigation of the Chinese government related to the settlements. And as a result, they escaped -- or they don't need to pay for any penalty, which are now other competitors are facing. But I just wonder in terms of the internal decision making, for the decisions to commit to cutting prices and cooperating with the Chinese government, did they need to come back to Nestlé for approval or they could have just make such a fast decision because they were clearly, the first company making such changes? And also as a result to the price cut they committed to, do you see that the margin or profit growth we projected would be changed in the near future? That's our first question.

Second part is that, given your 5% EPS growth target, and we also grew our dividend per share by 5% earlier this year when we announced last year results. Looking ahead, should we expect the growth in the dividend per share lagging behind the EPS growth given that we still carry about CHF 20 billion net debt, and the expectation globally is greatly increased in terms of the interest rate looking ahead, so just like to learn from you regarding these two aspects.

Wan Ling Martello:

Thank you, Eric, and thank you, and I look forward to seeing with you when I come to Asia meeting investors, I look forward to doing that. Let me answer your first question in terms of Nutrition business in China. First of all, I don't want to comment on the NDRC decision. I would say that the facts obviously have been published in their announcement. I will say though, compliance is one of our core business principles at Nestlé, so compliance is number one regardless of where we operate. And so we hold all of our business managers very much accountable for making sure that we're complying to the local laws and regulations. In terms of your question about, is this an internal decision? What you've seen on what has happened between -- the interaction between the market in China and the centre here in Vevey speaks to one of the great strengths of Nestlé. We're very matrix from an organization standpoint, and yet, we can be agile when it comes to quick decisions that have to be made. So what has transpired in this example is clearly a manifestation of how we are able to collaborate with the team in China, with the team here in Vevey. It really attests to that.

Now in terms of your question on margin impact, you have to remember our Nutrition business in China has a great portfolio, whether it's locally manufactured with local source milk supply to imported supply, imported product from Germany, so we have a good portfolio, a good mix. So with what happen in terms of price reduction, we can manage that through portfolio management. We also, don't forget, have a good meaningful business in China across many categories. So this is a case where if you do have to do some adjustment in one category or even in one product within a portfolio of that within that category, you can offset it with others in the portfolio or in other categories.

In terms of dividend, I just wanted to [clarify]-- you said 5% dividend. You meant around 5% organic growth [which] is our guidance. Now, we’ve always said in terms of our dividend policy, we have a sustainable dividend policy, which is that if you look back in the last 50 years, we have never ever lowered our dividends, in absolute terms. So in times like in 2011 where our EPS number was severely impacted by FX, you saw that the dividend, in absolute amount, went up. So our guidance in terms of dividend is in absolute amount. And in the last 50 years, it's never gone down. So we want to make it a sustainable policy, so that you know what to expect.

Questions on:	**Sales guidance and assumptions for H2 Weight management business**

Jeremy Fialko, Redburn:

A couple of questions. The first one is coming back to this issue on the 5% full year underlying sales guidance. I think, obviously, it's important that you relook at your guidance that you've got to make it but at the same time, you describe it as being a bit of a stretch. So perhaps what you could do is talk about what are the kind of assumptions that you're making in terms of the second half. Whether you think there's going to greater sensitivity in terms of you actually not making the 5% after all. Perhaps you could you talk around that a little bit more.

And then the second point would be on your Weight Management business that has been fairly persistent underperformer in your portfolio, so I really want to know how much longer do you think that you can keep this business underperforming as it has been, before you might need to start considering a divestment?

Wan Ling Martello:

Jeremy, that is a fair challenge in terms of *Jenny Craig*, Weight Management in the U.S, and look, are we happy with the performance? The whole industry is contracting, but we're not going to hide behind that. It's clearly something we need to fix, and so we are trying different things. And I can tell you that it's not something that I'm sure by the 9-month sales forecast that you'll be able to say that we're seeing improvement. And so we're painfully aware that it's a problem that we need to address. I can just tell you that it's very much on our radar, and Luis Cantarell who heads up Nutrition as well as Nestlé Health Science is very much on top of that. That's all I can tell you.

In terms of the around 5% organic growth, we would have loved to have a higher organic growth in H1, we're not saying that we're happy with the 4.1%. But having said that, we're very pleased with the RIG acceleration. We're very pleased with the quality set of numbers that we've delivered, top and bottom line. What goes into H2, again, lots of moving parts, with the economy slowing in emerging markets, that we have to take into consideration. The good weather now will help us in terms of Water and Ice cream, if you look at categories. Pricing, if inflation continues to persist, we should be able to take pricing in high inflationary markets. And so yes, I said it earlier. It is a stretch. My colleagues are very committed are very committed to delivering the organic growth for the balance of the year. Some of my colleagues are quite optimistic. I think it's a stretch.

Roddy Child-Villiers:

It's quite hard to go through all the different Zones and talk about risks and opportunities. But we're clearly counting on, as we said before, AOA picking up in H2. We're assuming continue to deliver positive growth in developed markets. And again, we saw a bit of a pickup in the RIG in Europe in the second quarter. But there's enough momentum in the business for us to be comfortable in the guidance that we've given. But I think there isn't a lot of value in us going through each of the Zones and GMBs and saying "Here's a risk. Here's an opportunity" because broadly, we're going to be around 5%.

Questions on	**Marketing spend for H2** **EBIT margin in Confectionery**

Patrik Schwendimann, Zürcher Kantonalbank:

I have a question regarding your marketing expenses, which were up 60 basis points in H1. What shall we expect as a best guess for H2? Is it more increase or would you say maybe after this strong, a little bit lower increase in marketing? That's my first question.

And secondly, regarding the EBIT margin development in Confectionery, which was down minus 110 basis points. You gave us some reason for it but I'm still a little bit surprised because I would assume that the gross margin in Confectionery was strongly up in H1 because of the lower cocoa prices. Could you give us some more ideas and also what your expectations are here for the future?

Wan Ling Martello:

Yes. Thank you, Patrik. Let me address the question on marketing, up 60 basis points. First of all, I have to characterize it. In terms of marketing spend, our digital spend, which I don't think I mentioned in my presentation earlier, was actually up 30 basis points [corrected below; 30% not 30 basis points]. So we're really pleased on that. And marketing spend, in general, our expectation of the market is to make sure that marketing spend is never sacrificed in order to deliver margin, and that's, again, one of the core things that we hold our market management responsible for. And so it's going to depend. Depending on market product launches, launches going into new markets, are we going to introduce new systems? So it's a lot of moving parts, depending on what's happening. I remember in H1 last year, I was talking about how the year before we had celebration of 100 years in Singapore, in Philippines, 90 years in Brazil. So a lot depends on product launches, market celebrations. You saw -- and this ties back to your question on Confectionery. One of the reasons why Confectionery margins was down, well, first of all, generally, it is a very competitive environment but also in Latin America, we invested a lot in terms of marketing for -- what do you call it? I'm not a football fan, World Cup?

Roddy Child-Villiers:

The World Cup, but also the Confederations Cup.

Wan Ling Martello:

Confederations Cup? I don't know what the difference is between the two. But anyway, I think it's FIFA or something. So anyway, you see depending on opportunities to invest behind the brands like the sports event. So that's also the reason behind our Confectionery margins being down. So it should improve in the second half.

Roddy Child-Villiers:

We don't run a group marketing budget, marketing spend is decided locally. Just one detail, correction to what Wan Ling said. The digital spend is up 30%, not 30 basis points.

Wan Ling Martello:

That's right, that's right, 30%.

Roddy Child-Villiers

Also you mentioned that you thought that cocoa would be a help to the gross margin. It's just what we're pointing out as we said earlier, that in Latin America, in Brazil, for example, which is our, I think, our biggest cocoa market by volume, we did not have a raw material benefit because the dollar in the cocoa price was wiped out by the weakness of the real, so it's not as straightforward as you're saying, if I can get prices off, that should help. So that's also part of the issue that we face as well as the other things that Wan Ling mentioned.

Wan Ling Martello:

But that's why we're able to price, on the other hand.

Questions on	Portfolio management Commitment to Nestlé model

Katie Askew, Just Food:

I'm afraid I dropped out of the call a little earlier, so apologies if I'm repeating anything. Just first of all, I wanted to return your comment that you want more focus on your portfolio management. I wondered if you could give any detail on what you meant by that? Will you be looking at SKUs? Could we see reduction? Are you considering any disposals? Or should we think about it more in terms of asset allocation?

And then going back again to your outlook, you said that it's going to be a stretch to hit the low end of the Nestlé Model this year, but do you remain committed to a 5% to 6% organic growth in the longer term?

Wan Ling Martello:

Yes. Let me answer the question in terms of the Nestlé Model. Let me be very clear, categorically, we are committed to the Nestlé Model. Our CEO, Paul Bulcke, always talks about this, whether it's in a presentation or in roadshows, that the 5% to 6% organic growth is a line we want to walk over time. If you look at the last 10 years, we averaged 6%, over 6%, of organic growth. So there are times that we might come lower than 5%. But over time, it's going to be 5% and 6%, and we're very committed to that. And we're obviously also very committed to the other components of the Nestlé Model, which is trading operating profit improvement, capital efficiency, EPS on an underlying basis improvement, so those, no change whatsoever.

I want to go back to your first question in terms of portfolio. It's very important for a company like Nestlé and we're very fortunate, thanks to the good work of the people, the earlier generation, who has handed over to this generation a great business, with the breadth and depth in terms of categories, geographic footprint. We have operations in 184 or so countries. We sell in a lot more, virtually in every country on earth. So the thing that we need to be careful of is, how do you then, when it comes to asset allocation, on resource allocation, whether it's money, people, marketing spend, R&D, whatever, whatever resource it is, how do you compare noodles in India versus pizza in the U.S. versus coffee in China?

So having the tool, having a common language that looks at all the cells, which is basically category in a geography, putting everything on an equal footing is very important for us. It's not used for performance management. It is used for asset allocation. So for instance, we had a business that came in and presented to the Executive Board a global business strategy, and we said, "Look, this business has been struggling", we give it 2 or 3 years and say you've got to get to this point. If not, there's going to be a sell by date. And so knowing where we need to cut our losses and also where we need to accelerate is very important for a company that's been blessed with the breadth and depth of categories, and the geographic Footprint that we're in. So it's a resource allocation tool.

Questions on	Advertising in US Removal of underperforming businesses

Alex Molloy, Credit Suisse:

My question is firstly on the U.S. I think you said in the past that the macro environment has being tough, of course, but Nestlé also could have done things a little better. You upped promotions in some categories. You cut advertising. If we look at those two factors, promotions and advertising, is advertising now going back up in the Nestlé U.S.A. businesses?

Wan Ling Martello:

Let me answer your question this way. It's not just in advertising that we could have done better in the past in terms of our Nestlé U.S. business. We could have done more in terms of innovation. I touched on this earlier, on my trip with Paul Greenwood, I was really pleased to see the number of products in the pipeline. If you think about the new launch in Pizza in our U.S. Pizza business, *Pizzeria!,* it's fantastic and it's doing quite well. We're very pleased with the early feedback we are getting from the market. So it's not just advertising, it's innovation.

In terms of advertising, one of the things that we have changed in the U.S. bonus system is you can no longer overachieve if you hit your margin improvement, if you do not improve your market share. And so there is a bit of a gate before you can hit your full bonus potential. So that's something that is not just a message sent to our colleagues in the U.S. but it's also going to drive a behaviour change. And so you see a step up in spending behind our brands.

Alex Molloy, Credit Suisse:

And my second question if I may is, following on from one of the questions asked earlier. On weeding out underperformers, and using *Jenny Craig* as the example, that's been underperforming for about 5 years now. So the question really is, what does a business actually have to do to be weeded out?

Wan Ling Martello:

What does the business have to do? Every business that is challenged today has to come in and present a turnaround plan. And so then it's our assessment. In the case of *Jenny Craig*, it's for Luis Cantarell, Paul Bulcke and myself to see if the turnaround plan is credible, and to assess the risks and opportunities.

I don't want to get into a lot of details in terms of the *Jenny Craig* turnaround plan. You've seen what we've done. I think I've mentioned this in the presentation. We've closed down some centres. We're shifting the focus to e-commerce. And so we're looking at a whole host of stuff. But this is something that we are painfully aware of and something very much on our radar screen, not just on Luis' but it's also on Paul's and mine. We're actively addressing it. I just cannot tell you other details.

Questions on:	**Share buyback update** **Priorities for capital spending**

Thomas Russo, Gardner Russo and Gardner:

One, I wanted the allocation of funds to share repurchase and where we stand on that now and looking forward? And the second, Wan Ling, is the priority for capital spending for the second half of this year and for 2014? What regions or categories are receiving increase in having that capital spending?

Wan Ling Martello:

Thomas, good to hear from you. In terms of share repurchase, we have said that we do not have any programme today. But having said that, obviously, we're not saying that it's off the table. That's what we've always said. And so it's something that we will look at more on an opportunistic basis versus the dividend policy, which is more sustainable year in and year out.

In terms of priority for capital spend, we've gone through our exercise in terms of portfolio, looking at where we need to spend. Clearly, if you look at our categories like PetCare, we're completely under indexed. We've talked about this before. In emerging markets, we're completely under indexed in Latin America and parts of Asia, so PetCare clearly will get a meaningful chunk of our capital spend. Also our systems technology centre, our Coffee with our systems and Nutrition. So a lot depends on what the business is and what our R&D, as well as our SBUs (Strategic Business Units) come up with in terms of innovation.

But what we have guided at the beginning of the year, that our CapEx spend is going to be around 5.7% of sales, we will come in slightly lower than that, Thomas. And I've said this before. If you have seen our CapEx spend in the last few years, it was stepped up because we had to do a lot of catch-up in terms of capacity in a lot of our emerging markets. So as we have done the catching up, we also, over time, should see that normalize, that trend normalize from a CapEx spending perspective. But this year, we'll come in a bit lower than last year in terms of percentage of sales.

Thomas Russo, Gardner Russo and Gardner:

How about the region of Africa in general for the capital spending for this and next?

Roddy Child-Villiers:

It is an area of focus, but we haven't been putting big facilities into Africa. We've been putting more greenfield facilities, which we can then expand rather than putting in major facilities. But it's certainly an area of focus, modular factories, we're putting modular factories. So these are not big ticket factories. These are getting in close to consumers, finishing product close to consumers, the idea being that as we have established the market, we can then put more substantial capital behind them.

Wan Ling Martello:

Yes. Thomas, we do not say how much of sales, but we are spending a meaningful amount, I mean, 5% circa, something like that.

Questions on: Jenny Craig in UK and Lean Cuisine

Eric Bürgler, SonntagsZeitung Zurich:

A couple of questions about *Jenny Craig* again. Is it correct that you did withdraw from the U.K. market, and are you planning to go out of other markets? And is the business loss-making or profitable? And are we seeing the same patterns with *Jenny Craig* as we see with Lean Cuisine? Are you facing the same challenges there?

Wan Ling Martello:

Yes. It’s, like I said in my presentation, in the nutritional diet segment, the dynamics we're seeing is similar between *Jenny Craig* and *Lean Cuisine*. You are correct, Eric, that we have closed down our U.K. operations. And so the big operations in *Jenny Craig* is obviously in the U.S. We do not disclose profit by businesses. But I will tell you that the *Jenny Craig* business this year, as well as last year was very much below our expectations and below what they have been able to do in the last few years. And so again, we are dealing with it, is what we can tell you.

Eric Bürgler, SonntagsZeitung Zurich:

And how about the European business, are you planning to go out of further markets?

Roddy Child-Villiers:

We don't really have a big European business. I mean, *Jenny Craig*, when we bought it, was basically a U.S. and Australian business. We still have a good Australian business. We opened the U.K. operation, it was fundamentally an online operation, not a store-driven operation. And we have a small operation in France and that continues.

Question on	**RIG acceleration in H2** **Factors affecting European performance** **Margin performance clarification**

Robert Waldschmidt, BofA Merrill Lynch :

I just wanted to come back in terms of top line in second half. We've seen a lot of announcements on the aforementioned CapEx, which should have been in the EMs in particular coming on stream with plants in places like China, Vietnam, et cetera. So I guess would it be fair to say that volume or RIG can accelerate in the second half, just based on the fact that you've got these new plants coming and they're going to be filling up, and also the easier comps?

Then two, within second half Europe as well, we know Europe was a bit tough in Q2. Can you extrapolate what is weather versus what is macro, if at all possible for us?

Then on margin, I just wanted to clarify your comments that were made earlier about not extrapolating H1 performance. Does that mean that H2 would not be as strong as H1, or that it would be more balanced and say, plus 20 basis points could be achievable in both halves?

Wan Ling Martello:

Robert, let me answer your last question first. In terms of margin, you know we guide in terms of margin improvement and trading operating margin for the full year. So what I wanted to do when I guided was I wanted to make sure, much like I did in H1 of last year, when I guided saying, "Please don't extrapolate our good performance in cash flow in H1 and sort of extrapolate it for the rest of the year". I wanted to do the same thing this time, this H1, from a margin perspective. We have done a nice job in H1, and there will be things like we've talked about earlier in my presentation given that we will be doing some more focus on portfolio, there will be some increase in other income and expenses, and so that will offset some of it. But having said that, the margin should improve year-on-year on a full year basis.

Roddy Child-Villiers:

Well, on AOA, I mean, I wouldn't draw too much of a straight line between the factory announcements and the growth. I mean, some of these factory announcements are announcing the building of the factory as opposed to the completion of the building of the factory, so there's not a straight-line connection between the two. I would just come back to our earlier comment that we've got the relatively easier comps in the second half in AOA, and we would expect to see continued pickup in the RIG in AOA in the second half of the year.

On Europe, we haven't tried to do the math to break out how much of our growth is weather or non-weather. Whenever anybody does that, they was yet criticized for making excuses, so we haven't done it. But hopefully, the weather will be better in H2 than it was in H1.

Wan Ling Martello:

People get criticized internally when they use the weather. So the weather being an excuse is not permitted internally within our own organization.

I think, Roddy, is that the last question?

Roddy Child-Villiers:

Yes, it's the last.

End of Q&A session

Wan Ling Martello, Nestlé SA, Chief Financial Officer

That's the last question. Okay, I wanted to thank you very much for all of your questions. As I said, so far this year, we have delivered a well-balanced, good quality set of results that leave us well-placed to continue to make progress in the second half.

Thank you very much for your time this morning, and as always, for your interest in Nestlé.

END OF TRANSCRIPT