2012 Q1 SALES CONFERENCE CALL TRANSCRIPT

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Speaker:

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Mr Roddy Child-Villiers, Head of Investor Relations, Nestlé S.A.

Slide - Opening slide

Good morning and welcome to our first quarter sales conference call.

Slide - Disclaimer

As usual, I will take the safe harbor statement as read and go straight to the key numbers.

Slide - Introductory Remarks

Sales were up 5.6% to CHF21.4 billion.

Organic growth was 7.2%. The major contributor, as you would expect following the 2011 evolution, was pricing, at 4.4%.

Real internal growth, or RIG, was solid at 2.8%, coming on top of a very strong 4.9% in the first quarter of 2011.

We had a positive evolution from acquisitions of 3%, net of divestitures. This being mainly the two partnerships, finalised at the end of last year in China, Yinlu and Hsu Fu Chi. Foreign exchange, on the other hand, continued to be a drag at 4.6%.

A couple of points to make on guidance. We are still seeing an impact in our business from the 2011 raw material pressures. I know that a number of you are assuming an immediate cost benefit, but there is always a time lag of several months, even if we don’t have any hedging, before the spot price is reflected in our business. So any benefit from raw materials will be felt more in the second half. Also, we still expect low to mid-single digit input cost inflation for the year as a whole.

Looking forward to the end of the year, we are confirming our guidance of delivering the Nestlé Model of 5 to 6% organic growth, as well as an improvement in the year end trading operating profit margin and underlying earnings per share in constant currencies.

Slide - Regional growth

Nestlé has again grown in all three regions. The Americas grew 6.8%, Europe 3.4% and Asia, Oceania and Africa by 12.2%. The Emerging markets grew by 13% and the developed markets by 3%. Those numbers are for all our businesses, including the Zones and the globally managed ones such as Nutrition, Water, Professional and Nespresso. As such, this is a real like-for-like for you to benchmark with our peers. Let’s now look at the performance of the individual businesses.

Slide - Zone Americas

Zone Americas achieved 6.2% organic growth, but -0.4% RIG. Pricing was strong in both North America, where it has impacted RIG, and in Latin America, where RIG has proved more resilient. Let’s start with North America.

Food category volumes in North America are generally down. As people are not literally eating less, this seems to reflect cash-constrained households being more careful in terms of spend, but also being more careful to ensure that less food goes unnecessarily to waste.

The frozen category remains in decline in the first quarter: entrees down mid-single digit, single serve a little less, and hand-held up slightly. Our performance broadly reflects these market trends.

The pizza segment is also down. The restaurant Carry-Out-Delivery segment is running very high levels of price promotions and media spend. This is impacting the frozen pizza market. Our innovations, particularly “Pizza Plus” and “Italian Favourites” have led to share gains, though our growth is down.

Ice cream was flat in terms of organic growth, as high levels of pricing by the industry, particularly in the premium segment, balanced out weaker volume. In super-premium, *Häagen Dazs* is performing well, whilst in the snacks business, I’d highlight Fruit Bars, Drumsticks and the *Häagen Dazs* bars.

The Chocolate business gained share. The *Skinny Cow* launch into chocolate is going well, actually running at double our expectations since launch, and with good levels of repeat purchase.

For *CoffeeMate*, our new *Natural Bliss* range is building good momentum, a year on from its launch, and is driving growth in liquid coffee enhancers.

Nescafé also had a strong start to the year, with double-digit growth and share gains.

The PetCare business is performing well, continuing its improving momentum seen during 2011, and gaining shares in its segments.

In Latin America, we have seen strong starts from both Mexico and Brazil, as well as a number of the other regions. Almost all categories achieved positive RIG, even though meaningful pricing was taken in a number of categories, including powdered beverages, soluble coffee, ice cream and chocolate.

Slide - Zone Europe

Next is Zone Europe. The Zone achieved 0.2% RIG and 2.3% organic growth. This is the same level of organic growth as in the first quarter of 2011, though it is more weighted to price in 2012.

In Western Europe, where the economic environment is poor and the consumer sentiment is weak, we have continued to see growth in most markets. Germany’s first quarter was flat, impacted by some now-resolved retailer negotiations, but elsewhere we have continued to see positive momentum in the business, building on the growth in the first quarter of 2012. Amongst categories, I would highlight PetCare, Soluble Coffee, chilled Culinary and Frozen Pizza.

Eastern Europe is a mixed picture, with generally good performances in the region, but no growth in Russia. The Russian business is certainly impacted by the economic environment there, but we have also been realigning our distribution. This should hopefully enable a better performance going forward.

Slide - AOA

Zone Asia, Oceania and Africa achieved organic growth of 11.4%, with RIG of 7.2%.

The Emerging markets continued to deliver double-digit growth, among them Greater China, Africa, the Middle East and the South Asia region, which includes India. In each case, this is double-digit growth on top of double-digit growth in the first quarter of 2011, so we have strong momentum in the Zone's Emerging markets generally.

This performance is reflected in a number of the categories, including Ambient culinary, ambient milk, chocolate, powdered beverages and ready-to-drink beverages.

Japan and Oceania had a slow start to the year, partly due to the strong comparative in the first quarter of 2011, and partly due to the economic environments in those markets.

Slide - Nestlé Nutrition

Next is Nestlé Nutrition. It achieved 5.8% organic growth and 2% RIG.

The biggest division, Infant Nutrition, had a good start to the year, with above-mid single digit growth, on top of double-digit growth in the first quarter of 2011. Many of the Emerging markets in AOA and Latin America were double-digit, including the Middle East, South Asia, Africa, Mexico and Brazil, with good performances from both the formula and infant cereals divisions.

The developed markets were more subdued, as one would expect, with low but positive birth rates in some countries and declining birth rates in others. These markets were, however, positive contributors to the division's growth. Innovation is playing a role here with, for example, our successful launch of baby food pouches in the US being the fastest selling SKU in that space, and Graduates Organics also doing well in the US.

Weight management continues to be impacted in the US by aggressive competition, as well as constrained consumer spending. We clearly still have work to do here to change the dynamics. More positively, the European launches are making steady progress.

In Performance Nutrition, our initiatives in 2011 to refocus the business back onto its core athletic client base, core products and communication themes are showing good early returns with an improved performance in North America. The smaller international business continues to perform well.

Slide - Nestlé Waters

Next is Nestlé Waters. The division reported organic growth of 8% and RIG of 5%.

The North American market has continued to evolve positively in 2012, after its growth in 2011. We have seen good performances across the business, from *Nestlé Pure Life*, from the regional waters and from the International brands. Our Home and Office business also continued the positive growth trend seen in 2011.

Europe is also seeing growth. We had a strong performance in France, with share gains. We also gained share in Italy and had double-digit growth in the UK, due to *Buxton* and *Nestlé Pure Life*, and in Germany, with *Vittel* performing well.

The Emerging markets also achieved double-digit growth. In Asia I'd highlight Vietnam, the Middle East, Turkey and Egypt, and in Latin America, Mexico and Argentina.

Nestlé Pure Life, a big brand in the Emerging markets, as well as in North America, grew double-digit globally.

Slide - Other

I will now wrap up the segment reporting now with our final category, Other.

Nestlé Professional continues to deliver positive growth, around mid-single digit globally, fueled by double-digit growth in Emerging markets. The Beverage Division focus on premium and super-premium systems and services is building good momentum: as examples a key account in North America is taking several thousand *Nescafé Milano* machines. *Viaggi*, our super-premium system, is now in four European markets, whilst at the other end of the spectrum *Nescafé Alegria*, our more mass market machine, has now been launched in 60 markets.

The standard pure soluble and dairy businesses are also performing well.

The Food business also saw good growth, again double-digit in Emerging markets. The Culinary Flavour Solutions approach (products such as bouillons, sauces, seasonings, soups, desserts) is resonating well with customers.

Nespresso continued to perform at a similar level to that in 2011. Boutique openings continue, and club numbers continue to grow.

Nestlé Health Sciences has started its second year well, particularly in Asia and the Americas. Last year's acquisitions are performing to plan.

Beverage Partners Worldwide is starting the process of realigning its markets. Many of its Latin American businesses are now being integrated into Zone, with the AOA ones following later in the year.

Cereal Partners Worldwide saw strong growth in Emerging markets, but this was somewhat mitigated by the weaker consumer sentiment in the developed world. Overall, though, the business achieved positive growth.

Slide - Category Review

On the next slide is the overview of our product category performance. I have touched on much of this already in my Zone comments so will be brief. We can always come back for more detail in the Q&A.

All product groups were positive from an organic growth perspective and only the one didn't deliver positive RIG. Again, this underlines that we are performing well in terms of growth on a broad basis.

Slide - Category Review

Powdered and Liquid Beverages has had a good start to the year in view of its near double-digit RIG in the first quarter of 2011. As you will remember, this was driven by a number of factors, including imminent pricing in Soluble coffee.

The different product group constituents have all contributed well in the first quarter of 2012. *Nescafé Dolce Gusto* and *Nespresso* continue to be key growth drivers. *Milo* has also had a strong start, with double-digit growth.

Milk Products and Ice cream is showing 8.5% organic growth, with 7.2% pricing. The pricing is in both Dairy and the Ice cream businesses, and has impacted real internal growth, particularly in ice cream. The Dairy business, which is predominantly an emerging market business, is performing well in AOA, where I would highlight China, Pakistan and the Middle East, and in Latin America, including in Brazil and Mexico.

Ice Cream has started the year well in Europe, though it is the off-season. In North America, the business is flat overall.

Prepared dishes and cooking aids is a mixed picture. I have already discussed the frozen business. The Ambient business, mainly *Maggi*, is performing well globally. It continues to be one of the key emerging market growth drivers. *Herta*, mainly in France, also deserves a mention as it continued to achieve mid-single digit growth in the chilled category.

Confectionery achieved 7.1% organic growth. There was some benefit from Easter falling earlier than in 2011, so the first half number will be a better guide than Q1 to the underlying growth performance. Double-digit growth in confectionery in Zone AOA, where Easter isn't a material factor, demonstrates that the business is continuing to perform well, with highlights including China and the Middle East. The business also grew double-digit in Latin America.

PetCare delivered Organic Growth of 7.7% driven by good growth in both developed and Emerging markets. Nestlé grew market share in all regions and across all major pet food segments. In addition, growth in Emerging markets continued to be strong driven by double-digit growth in Latin America and Central & Eastern Europe.

In the U.S., the pet food category appears to have stabilized from the early 2011 negative trend with indications of some early recovery in Pet Population trends. We continued to grow share driven by good performance in Cat Food, Dry Dog and new product launches including *Beneful Baked Delights*, a new line of dog treats and an expanded premium line for *Wet Cat*.

In Europe, continued momentum on *Felix, Purina ONE* and *Purina Pro Plan* contributed to the Q1 growth. In addition, *Felix Cat Snacks* was rolled out in Germany, France, Holland, Belgium and Spain. We continued to grow market share in Central and Eastern Europe.

Slide - Summary

A final slide just to summarise.

The year has started well from a growth perspective. The first quarter is a bit impacted by the Easter timing. As ever, therefore, the first half numbers will be a better read-through to our underlying sales performance than the first quarter.

The business environment is tough in developed markets, with consumer confidence under pressure and, if anything, lower than in 2011. We will be investing in our brands and innovation and will be focused on realising the growth opportunities that we know exist in developed markets. On the other hand, the Emerging markets continue to be dynamic, and we are very focused on driving distribution in those markets to increase our exposure from PPP to premium.

Our 2012 outlook is unchanged – delivery of the Nestlé model for the full year, as I have already said.

That concludes my presentation. Let's now go to the Q&A.

Q&A Session

Questions on;	**Impact of leap year and early Easter** **Size of Chinese business with recent acquisitions**

Warren Ackerman, Société Générale

Couple of questions. The first one is, I appreciate it's not easy, but I was just wondering whether you're able to give us a feel for the Group impact on organic growth of the leap year and also the early Easter, which you touched on in your Confectionery commentary. I was wondering whether you can aggregate both of those impacts up at the Group level. That would be really useful.

And the second one is the M&A line was higher than consensus, quite a lot higher than consensus, mainly due to Yinlu and Hsu Fu Chi. Just wondering how big pro forma will China be after those acquisitions. It looks like it's going to be a, maybe a doubling of your Chinese business. And are you able to talk about how those acquisitions will impact your capabilities generally in China? Thank you.

Roddy Child-Villiers

Yes, on the Q1 impact I think, as you say, it's a quite difficult question. I think we need to start with 2011 and of course back in 2011 we had the Arab Spring, we had the Tsunami in Japan, we had some customers buying in ahead of price increases. On the other hand, we didn't have an Easter. So there are a whole number of things went on in Q1 last year that are quite different from Q1 this year. This year, as you say, we have the leap year, we did have the Easter, we didn't have customers buying in ahead of price increases, but we did have some disruption of customers in Europe around price negotiations.

So there's a whole bunch of moving pieces in both quarters and we haven't attempted to try to aggregate out what that would mean in terms of basis points. Clearly you can do the leap year math yourself and it's about 1% statistically, but there's a bunch of other stuff in there as well. So I'm not sure it's hugely meaningful to do it. We haven't done it.

On the M&A side, I guess the reason that the M&A number has come out higher than consensus is because the Chinese businesses, the partnerships that we signed at the end of last year, are probably growing faster than people imagined. Remember that there is no RIG or organic growth from those acquisitions. It's all included in the acquisition number.

In terms of the impact of those businesses on China, it's very early days. Clearly the SBU heads have been out there. They've met the businesses. They've talked about what we can bring in terms of marketing expertise. Equally they're keen to learn from the Chinese businesses about their capabilities.

You asked about capabilities. We're very excited in particular about Hsu Fu Chi's distribution capabilities into retail, also Yinlu's aseptic packaging capabilities, which are as good as anything we've seen anywhere in the world. So they're certainly bringing a lot to us in terms of capabilities. And that's one of the reasons that they were so attractive, apart from obviously the categories that they're in. And of course, the other thing that we're excited about is that it takes us into local Chinese diets rather than just more a European-focused business.

I'm a bit reluctant to give a pro forma Chinese number for the current year, but it's clearly going to be somewhere around 4% to 5% of sales. So the Chinese business is quite material, which actually reminds me that when it comes to the 2013 Q1 you're not only going to have the Easter and the leap year impact; you're also going to have the Chinese New Year impact because Chinese New Year is the peak season for Hsu Fu Chi. So the Q1 in 2013 and thereafter is going to be a pretty poor guide I think to the underlying trends in the business.

Warren Ackerman – Société Générale

And, Roddy, just in terms of a point of clarification, you said something at the beginning of your speech about the raw material issues being a bit of a lag. I was just wondering whether there was a bit of a message in there that margin delivery will therefore be maybe a bit more H2 weighted compared to H1.

Roddy Child-Villiers

Warren, there's always a message. There's always a message.

Warren Ackerman – Société Générale

Yes, coded.

Roddy Child-Villiers

And that's a good read through, yes.

Questions on;	**Easter impact on Q1 and Q2 Confectionery** **Trends and competition for Dolce Gusto**

Jon Cox, Kepler Capital Markets

A good set of figures there, probably much better than everybody expected.

But just to come back to this Easter issue, it looks like you're a bit reluctant to talk about an overall impact. But just wondering on Confectionery specifically, do you think maybe it added a point to organic growth and as a result maybe a point less organic growth in Confectionery in Q2? That's the first question.

A second question just on Coffee generally and the system business, this is obviously tremendously important for you in terms of *Nespresso* and the *Dolce Gusto*. I wonder if you, could actually just mention something about *Dolce Gusto*, how the trends are there.

But also wondering if you've seen anything that worries you from a competition perspective given the fact that it seems to be a lot of competitors getting into it and trying to obviously grab some of that fast-growing market. Is there anything that gives you cause for concern or are you pretty relaxed for the time being? Thank you.

Roddy Child-Villiers

Thanks Jon. Yes, you're probably broadly right on your Easter assumption, but again there are a lot of moving parts even in Confectionery.

On the Coffee business, we've continued to see a very good development of both the *Dolce Gusto* and the *Nespresso* retail systems and, as I said, also within Nestle Professional with their systems. So that broad business segment continues to be a key growth driver.

You talk about new entrants into the market. I think at this stage the new entrants are still actually talking about it rather than doing it, but it's clearly something that's coming. No, we're not relaxed. We're never relaxed. We are very focused on ensuring that we are doing all the right things to continue to drive the business forward as successfully as we have been doing so far. So we're certainly not relaxed.

The other business, there's not much more to say about it. *Dolce Gusto* continues to build on its presence. It's now in nearly 60 markets. Growth is, the organic growth is lower than it was last year, but it's coming off a much bigger base so that's hardly surprising and it's still the fastest-growing big brand that we have I guess, by a fair way. And as I said earlier on, *Nespresso* is also performing very well.

Questions on ;	**Pricing levels** **Slowdown in US or key emerging market**

David Hayes, Nomura

Just two areas please. First of all on pricing levels, I just wonder whether there was any category where you notably took up pricing sequentially from the fourth to the first quarter.

And then just looking forward, looking at the way you talk about the outlook it feels like you're saying that the pricing is taken and that will obviously reside through the rest of the year rather than pricing to go up substantially or at all in the -- through the year. Just wonder whether that is the interpretation that we should have.

And then the second question is just in terms of again sequential trends. You talked about the US being a little bit lackluster. And then also other companies, I think you guys have also said, Emerging markets may be a little bit slower as well. Just wondered whether you have seen a slowdown between the fourth and the first quarter in either the US or any key

Emerging markets or whether that's just a commentary which is a continuation of what you were already saying at the end of last year.

Roddy Child-Villiers

Starting with the second question, we don't tend to look at the Q1 off the Q4 base because the Q1 is also very much driven by the comps in the prior year Q1. But if we were to do it I don't think we would see dramatic changes in pattern of growth between Q4 and Q1.

Looking at the US in particular, yes, clearly, consumer sentiment is lackluster. Clearly it's impacting our categories and our business. I think what you'll see in the US, though, is the pricing effects from last year will obviously come off later in this year and, with luck and innovation, should be somewhat replaced by increasing RIG.

The Emerging markets, I don't think we're seeing a dramatic slowdown. We were 13% this year. I think from memory we were about 13% in the fourth quarter and I think we were 12% in Q1 last year. And so I think the Emerging markets are performing at a similar level to where they were last year. Now clearly one can have a debate about the macro-environment in Emerging markets and is there a slowdown or not, but we are far more focused on what we are doing to drive our growth in those markets. We're not seeking to be a market-growth business in the Emerging markets and that's why we're investing heavily in increasing our distribution of our products in Africa and Asia, and other such regions.

On pricing, yes, we have taken pricing. I think Dairy would be an example. Soluble Coffee would be an example. Water would be an example. PetCare would be an example. And in the US in Frozen we've taken pricing in the sense of a change in promotional behavior. So we're no longer doing five for $10. We're doing four for $10, which is a quite significant pricing change, which has not necessarily been followed by all of our competitors which goes some way towards explaining our market share performance in the Stouffer's business.

David Hayes, Nomura

Okay. And then for the rest of the year, I guess you might just take pricing in some categories. I guess you don't know necessarily. But you're not trying to say that that's it for pricing and that's not the message that we should take.

Roddy Child-Villiers

No.

David Hayes, Nomura

There could be areas of price uplift versus here.

Roddy Child-Villiers

Yes, no, as you know, David, we take -- the pricing decisions are made locally around the world by the guys running the categories in the markets, and they will do what they need to do. But the way that the raw material picture is looking, it doesn't look like we're going to be taking the level of pricing we were taking last year. And as I said in the previous Q&A, the impact is more H1 than H2 and I think that's actually also reflected in the consensus.

Questions on;	Currencies impact on results Growth rate in Mexico and Brazil

Alain Oberhuber, MainFirst.

Just two questions. The first is about currencies. If we assume, because the number was much weaker than the market was expecting, just about the proportions, if we assume that all the currencies remain constant when do you expect a positive impact of currencies in your results?

And secondly, if we look at the growth rate in Latin America I assume that in particular Mexico and Brazil was at least as good as emerged market growth, i.e. at 13%. Is that a fair assumption? And if not, was it a positive momentum in these two markets versus Q4?

Roddy Child-Villiers

I think your first question on currencies is rather difficult to answer because we don't tend to assume that nothing's going to change in terms of currencies. But it's clear that if things stay as they are the currency impact will -- the negative currency impact will reduce over the course of the year. But we haven't done a model that says what will it be at the end of the based on today's rates.

In Latin America, no, you would be aggressive if you we're assuming that Brazil and Mexico were growing at 13%. They are growing very well. They're not growing at that level.

Alain Oberhuber, MainFirst.

Okay, there's positive momentum versus Q4 in both markets.

Roddy Child-Villiers

They are both performing -- Brazil is certainly above where it was in Q4. Mexico had a very strong year last year and continues to be very strong.

Questions on ;	Pass-through categories in portfolio Single serve business in North America and Europe

Pablo Zuanic, Liberum Capital

Two questions, one more macro and one product specific. Are there in your portfolio any categories that we should think of as pass-through categories? We're seeing roast and ground, margarine, yoghurt, fluid milk prices go up and down with underlying commodity. Are there any product lines in Nestlé, at all, where we should think about that, like, for example, in powered milk? That's one question.

And the second one obviously is more around the single-serve coffee platform. Can you just -- I have two very brief questions there. I'm hearing that the *Nescafé Dolce Gusto* type of coffee in North America, because it's more milky and foamy, doesn't really go with the type of brewed black coffee that the market looks for, for example, Green Mountain Coffee roaster sales. And that's why NDG is not growing so well in North America. I understand that can be irrelevant given that 85% of the business is still in Europe and it's growing at 60% this year, but if you can comment on that.

And the second question in the single-serve coffee in Europe. Is the category growing much? And I'm talking about the non-espresso category, if I can differentiate it that way, meaning the category where Senseo, Tassimo and *Nescafé Dolce Gusto* compete. It seems to me from the data that I'm looking at that the category may be flattish or at best growing single digit. If you can comment on that please. Thanks.

Roddy Child-Villiers

Yes, the way you describe *Dolce Gusto* in the US as not being the classic American black coffee is accurate. And one can say the same for *Nespresso* of course and it hasn't stopped *Nespresso* building a successful business in the US. So I don't think the issue for *Dolce Gusto* is that it's offering the wrong product.

And to support that we know that where we've been successful in selling Dolce Gusto machines the use per machine is very high. It's above average use per machine. So the people who are buying the machines are enjoying the product. So I think where we're successful in converting the traditional American coffee consumption moment we're enjoying success. That, as I say, also applies to *Nespresso.*

On the European market, we have -- I don't have a number for the European market ex-*Nespresso*. But the European market is still growing very nicely and we are still growing our share. You were at the CAGE when Fiona Kendrick presented and we showed you a share chart and I think the trends on that share chart remain accurate today, as they were then.

On the pass-through categories clearly our strategy is all about added value and the more you add value the less you have pass through, I suppose. You cited Dairy. The reason that our Dairy business has been so successful over the last 10 years or more is because we've moved that business from an effectively plain powdered milk business into a business that is segmented by consumer benefit, whether it's for children between one and three, three and six or above eight, or indeed now adult milks and milks with other specific nutritional benefits. So the whole secret of our success in milk has been to create value from what would otherwise be a commodity pass-through category. And I could take you through other examples.

You mentioned Roast and ground. Roast and ground is clearly a pass-through category, which is why we don't as a rule play there albeit we have one or two small businesses. And then of course obviously the systems' business in *Nespresso* that's quite different. I guess the pass-through category that we do have would be water where clearly the water pricing is very driven by raw material costs, particularly by PET and oil. Does that answer the question, Pablo?

Pablo Zuanic, Liberum Capital

Yes. That's very helpful. Thank you.

Questions on;	**H1, H2 pattern for Input costs** **Organic growth for North America**

Patrik Schwendimann, Zuercher Kantonalbank.

Firstly regarding your input costs, you were mentioning for the full year a low single-digit increase and what should we assume for the H1, H2 pattern? So should we assume a high single-digit increase in H1 and a decrease in H2? That's my first question.

And secondly regarding your performance in North America, could you give us the organic number for North America for Q1? And also your best-guess estimate for the full year? You were already mentioning that probably the RIG should be better later in the year, maybe pricing less, so at the end of the day what would you expect from your organic growth?

Roddy Child-Villiers

On the raw material, our guidance for the full year is low to mid single-digit. I'm not going to give you guidance for the half year. But what we've said is that it's first-half weighted. Therefore, if it's low to mid for the full year, it's going to be higher for the first half. And I'm not going to give you a number.

We also don't disclose the North American organic growth, but it was positive and made up of negative RIG, positive pricing to give positive organic growth overall.

Patrik Schwendimann, Zuercher Kantonalbank.

I just have a slight -- for the full year should we expect any improvement here overall in organic growth North America?

Roddy Child-Villiers

We'll wait and see. I'm not going to give forecasts on organic growth for all the zones or even all the regions. So we'll wait and see. Okay?

Patrik Schwendimann, Zuercher Kantonalbank.

Okay. Thanks Roddy.

Question on;	**Impact of distribution changes in Russia**

Jeremy Fialko, Redburn Partners

Just a question on Russia for you, Roddy. Can you talk in a bit more detail about what the distribution changes that you made are?

And is this a one-quarter impact that you've got from implementing the changes or is it going to be something that acts as a drag for most of the year in Russia, and then when you hope to see some sort of an improvement?

Roddy Child-Villiers

Russia, as I think you are aware, has been a bit of a challenge for us for a couple of years now, particularly in the zone businesses. It's been rather better for us in the last couple of years in infant nutrition. Also the PetCare business is doing very well. What we've been doing in Russia, we have just recently opened a major new *Nescafé* plant, which is obviously bringing us in line with some of our competition, who already have local manufacturing there whereas we didn't and that's important in view of import duties.

In terms of distribution, it's simply just realigning our distribution to make it more effective. I'm not going to go into the nitty gritty aspects because it's a little bit competitive.

Is it a one-quarter hit? No. It's not a one-quarter hit. We're not expecting a sudden recovery in Q2 and I think frankly the issues in Russia are deeper than that. For a start the economy isn't the best. So hopefully what we're doing on distribution will give added momentum to the business and will contribute to improving performance over the course of the year, not necessarily in Q2.

Questions on ;	**Competitive dynamics** **Marketing and promotional mix** **Nespresso patents**

Jane Gelfand, Barclays Capital

A quick question on how you see competitive dynamics perhaps developing into the back half. A couple of innovation or ingredients partners have talked about seeing a greater pipeline of new products slated to come up and online in the back half particularly in North America.

And I guess I'm wondering what you're expecting from a promotional versus true marketing standpoint in the back half, especially as commodities decline. A couple of years ago we saw smaller trends to start the year, meaning RIG definitely impacted by price mix not just for Nestlé but for the industry as a whole. And in the back half we went into a downward spiral from a promotional perspective. So I'm just wondering whether you expect the industry to be more rational in the back half this year, maybe backed up by true innovation, or we have to hold our breath and potentially brace ourselves for less rational dynamics?

Roddy Child-Villiers

I think that's all about North America so that's how I'll answer it. First of all I don't think that we would suggest that the competitive dynamics have not been rational. I think our competition do stuff because they believe it's rational to do it. Certainly we do stuff because we think it's rational to do it. So I think the competitive environment is rational.

Now in terms of coming innovation I'm not obviously aware of what the competition is up to and how that might change the competitive dynamic. We have some interesting stuff coming through in a number of categories. Some of it is already out there. I mentioned PetCare. I mentioned some of the stuff we've done in pizza as well, also in *Coffee-Mate* with our *Natural Bliss*. So we've got a lot of stuff out there that's already happening. *Skinny Cow*, I mentioned. There's also stuff coming through which I haven't talked about and which I'm not going to talk about until it's happened. So I'm hopeful that there is some innovation that will bring some dynamism to the market for us at least in the second half of the year.

In terms of the mix between pricing and promotion and marketing and so on, I cited the one example in Frozen of going from five for $10 to four for $10, but it's up to the individual guys running the individual businesses in the States how they want to play that. We're not going to micromanage that from here. But clearly if there is an easing in raw material pressure that provides an opportunity for them to look at how they're going to market.

Jane Gelfand, Barclays Capital

If I could just follow up quickly about *Nespresso* patents? Yesterday during the AGM there were some comments about the patents being upheld. I'm just wondering whether that was a change relative to what you've said previously, whether that allows you to pursue any other legal avenues from an injunction standpoint or whether it's more of the same and you have to continue to fight the individual legal battles?

Roddy Child-Villiers

There was a press release that went out yesterday just confirming that we had won a ruling in the European Court. And that's what it was. It was a press release from the European Court. So effectively what it means is that we won that ruling and that puts us in a good position as we now pursue our court cases in the individual European markets.

I think what we have always said, and perhaps this will resonate more on the back of a victory than when we're in the middle of a court case, what we have always said is that *Nespresso* is going to win in the market because it's got a better product, better customer service, better design because of the whole secret of *Nespresso* system, not because of what happens in courts. And as I say, perhaps that message will now resonate more strongly on the back of a victory rather than when we're fighting a court case.

But I think the change, if there is a change, is that it's a net benefit, it's a net positive for us as we go into these local court cases.

Questions on ;	**Pricing in Milk and Ice Cream**
	RIG in Emerging and Developed markets

Xavier Croquez, CA Cheuvreux

Two small questions. The first one is, I was a bit surprised by the level of pricing in your Milk and Ice Cream category. I knew -- you could see that coming into the quarter because there was a build up from last year. But with the type of raw material price evolution, and I take your point on the lead time, I was still quite surprised on how strong the pricing has been. Is there anything else than raw mats behind this pricing? Is the Ice Cream business pushing pricing up or is there a mix effect? What is behind this very important pricing factor in that category overall?

The second question is a smaller question. If by any chance you could give us the RIG numbers in Emerging markets and developed markets, it would be helpful.

Roddy Child-Villiers

Yes. I think there are two fundamental things answering your first question on Milk and Ice Cream. One, there's cost pressure so we have taken price. Second, in the US the premium Ice Cream segment, which in Europe would be the mass ice cream segment, has always been sold very heavily on promotion. And we have changed our strategy, our promotional strategy, to make it less promotion-led and that has had a positive impact on pricing which is quite dramatic. And that, and I think you'll see that's true across the industry.

Xavier Croquez, CA Cheuvreux

Okay. But, sorry, to get a timing sense of this, this is what is behind the numbers since mid-2011 or is this something relatively new?

Roddy Child-Villiers

No. It's more this year than last year. Last year's pricing will have reflected fundamentally the raw material cost pressure.

Xavier Croquez, CA Cheuvreux

The cost pressure, okay.

Roddy Child-Villiers

This year's pricing reflects the carry through of last year's pricing on the raw materials and what we're doing on Ice Cream.

I don't think we normally give you the RIG numbers on emerging and developed markets. But the emerging market RIG was between 5% and 10% and the developed RIG was also positive.

Xavier Croquez, CA Cheuvreux

You didn't give it, but it was a suggestion. Thanks.

Question on;	**Performance in tougher European markets and impact on RIG**

Robert Dickinson, Citigroup

Could you give an indication of the performance of the business in some of the tougher European markets such as Spain and Italy, and whether that had any impact on Zone Europe's RIG? I know last year you highlight that some of those tougher markets had been performing pretty resiliently so any help there would be great.

Roddy Child-Villiers

The Portugal, Spain, Italy, Greece combination continued to deliver positive organic growth for us, not at quite the levels it was last year but still positive. So we're still eking out growth even in those tough markets, but I think it's fair to say that the environment there is tougher than it was last year.

Italy, actually we're doing pretty well. I think we talked last year about how we've made some changes there. The business is performing well. Market shares are good. Actually market shares are good fundamentally broadly across the whole of Western Europe. So I think we're still outperforming our peers. I think we're still doing pretty well.

There are issues. For example, the quite significant increase in VAT in Portugal, as an example, is a bit of a challenge. If you take, as an example you take *Nestlé Dolce Gusto*, the impact of the VAT increase is to push the price of a box of *Dolce Gusto* capsules over EUR5, which is quite a challenging price point. So there are issues that are in those markets which we need to manage, but, as I say, overall we're still eking out some growth and I think that's a pretty good effort by our people.

Question on ; Trend in pricing in Q4 versus Q1

Pierre Tegner, Natixis Securities

I would like to come back to David's question on pricing due to the sequential price increase we can see specifically on AOA and on Emerging markets between Q4 and Q1. Do you consider that you are quite happy with the level of price you have now at the end of Q1 or have we to expect further small price increases during the next quarters?

And the last question is, my feeling is that you have a big focus of price increases specifically in the emerging market and in sequential terms we have much more lower price increases between Q4 and Q1 on the Water, on Nutrition and Europe. Is it the effect of the challenging trading environment or is it much more a Nestlé policy to preserve your competitivity in these mature markets? Thank you.

Roddy Child-Villiers

Thanks Pierre. If I understand, your question is about the trend in pricing Q4 versus Q1 in AOA and generally.

Pierre Tegner, Natixis Securities

Yes.

Roddy Child-Villiers

First of all the pricing in any given quarter reflects the pricing taken in the prior year. So it's clear that there was pricing in Q4, rollover pricing in Q4 that is no longer there in Q1 because the year has passed. So the Q1 number does not include rollover pricing that was in Q4. Equally there will have been pricing taken in Q4 and there's pricing taken in Q1. So you can't just do a Q4/Q1 price comparison and say -- good heavens, the pricing's come down dramatically; Nestle must have reduced their prices. It's just the result of rollover pricing in Q4 not rolling over into Q1.

Pierre Tegner, Natixis Securities

Yes, but on this point can we expect further pricing actions in sequential terms in Q2 versus Q1 and in Q3 versus Q2 in the course of the year?

Roddy Child-Villiers

As I said earlier on, Pierre, the pricing decisions are taken in the markets locally by the category heads and it's clear that where we have cost pressure in those markets they'll be taking pricing. We have taken pricing already in Q1 in some categories in some markets. As and when the market -- the category head's feeling is to take pricing, they will do so. I would be astonished if there was no more pricing in 2012 particularly in Emerging markets. I'm sure there'll be more pricing, yes.

Question on; Guidance

Jon Cox, Kepler Capital Markets

Just looking at the net trading income line for this year, looking at consensus around CHF700m, I seem to remember your guidance was restructuring and legal, and all of this stuff that comes in that line is actually going to be closer to half a point of revenues for the year. Is that still the case? I'm just trying to work out why on consensus at least you have a -- there's a CHF716m figure there in that line?

Which leads me into the second point. I know your guidance now is for the trading operating profit margin to come up and I can see that's plus 20 basis points on consensus. On your old operating profit would you think you'd actually get a margin increase there at all or would you say, no, given the fact that you're guiding for maybe only half a point in that net trade income line, actually that margin is likely to be flat if not somewhat lower?

Roddy Child-Villiers

There's no reason why our guidance on the net non-trading and all of that should have changed from the full year to the first quarter so you can assume that the guidance we gave at the first quarter is still good guidance.

In response to the requests from the market we have changed our reporting, gone to net-net sales, tried to bring ourselves in line with our peers, tried to make comparisons with our peers easier. And in line with that we've now changed how we guide. And you're now asking me to guide on a number we don't even report, so I'm not going to do that. Our guidance is based off constant currency improvement and trading operating profit margin, and underlying earnings per share, so I'm not going to give you guidance on the old EBIT.

Jon Cox, Kepler Capital Markets

Okay. And then are you pretty comfortable with that plus 20 basis points at trading operating profit consensus at the moment?

Roddy Child-Villiers

The consensus is what it is. As you know, we don't endorse it. It's what it is. I think that what the consensus is telling us it that we're going to have a tougher first half than second half, but we're going to deliver on the Nestle model. We've said we're going to deliver on the Nestle model so at least directionally we and the consensus are in the right place.

Jon Cox, Kepler Capital Markets

Okay. Because the tone of the call overall has been maybe, certainly on the margin, watch out H1; don't get too carried away. I guess you're not trying to push consensus down at all.

Roddy Child-Villiers

Jon, the consensus will do what it will do. I think all we're doing is we're saying the consumer environment in Western Europe is tough. This is no surprise; we all know that. It's perhaps a bit tougher than it was last year. Emerging markets remain dynamic. Again I think we know that. And we're very focused on being better than market in terms of our growth performance in Emerging markets. The raw material environment remains I think perhaps a little bit tougher than some of you guys are writing about because we still have cost pressure in the market. And, as we say, it's more H1 weighted than H2 weighted.

The consensus is already saying that so I think that we and the consensus are broadly aligned. But I'm not going to get into basis point discussions on consensus.

Questions on; Organic growth in Infant Nutrition

Pedro Gil, Santander

I have a question on your Nutrition business. Could you give us some colour on the rate of organic growth that you're seeing in Infant Nutrition in your Emerging markets as compared to your developed markets?

Roddy Child-Villiers

Sure. The Infant Nutrition business is growing double-digit in Emerging markets and is growing low single-digit in developed.

End of Q&A session

Roddy Child-Villiers

Thanks very much. I've been told that we apparently had some technical problems earlier on in the call for which I apologize. If you missed anything there's always the replay, which hopefully will work. Thank you very much for listening. As I say, we've reconfirmed our commitment to deliver the Nestle model for the full year 2012.

Thank you for your interest in Nestle. Thank you for your questions and for your time.

Good bye.

END OF TRANSCRIPT