



“Nestlé India Financial Analysts’ Meet”

Transcript

November 20, 2015

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Himanshu Manglik:

Good Afternoon, Everyone. Thank you for being here again. As usual most of you are here on time. Though a few are still to arrive, we will not wait as it is 3.30 and we need to start.

This time I want to tell you also that as per the requirements, the entire proceedings from the session will be uploaded on the website. We will have a transcript of proceedings which would go up. Therefore, it is also important that when later we have the question-and-answers, any question should be accompanied by the name of the person and the organization because we will need that in the transcript. That is a request, otherwise, we will have to keep repeating. Thank you very much for doing that.

This is the standard disclaimer but I think it is very important for us to go through this in detail. So I will read it for everyone: This Presentation may contain statements which reflect management's current views and estimates and could be construed as forward-looking statements. The future involves uncertainties and risks that could cause actual results to differ materially from the current views being expressed. Potential uncertainties and risks include factors such as general economic conditions, commodities and currency fluctuations, competitive product and pricing pressures, industrial relations and regulatory developments. Real internal growth and organic growth are basis Nestlé's internal reporting standards. Figures are regrouped or reclassified to make them comparable to current periods. Calculations are based non-rounded figures. Analytical data are best estimates to facilitate understanding of business and not meant to reconcile reported figures. Answers maybe given to non-price sensitive questions only.

So having gone through that, the agenda for today really will be that after I finish my bit I will request Mr. Suresh Narayanan to give his Presentation, then Sanjay Khajuria will talk about the MAGGI Noodles Issue, and then the Financials from Mr. Duggal. Then we will have Questions-and Answers that maybe remaining.

Before we proceed, I will just give a very brief introduction to Mr. Narayanan; Some of you have may met him earlier when he was here in India, but for others who do not, Mr. Narayanan joined the Board of Directors of Nestlé India in August this year; he has over 30 years of rich experience in the FMCG industry and has had senior management and top leadership roles in leading global companies; he was Chairman and CEO of Nestlé Philippines prior to coming here; he was also earlier Managing Director of Nestlé Singapore and before that Chairman and CEO of Nestlé Egypt and Head of the North East Africa Region for Nestlé. He has a Master's Degree in Economics in Delhi School of Economics; Diploma from the IMD Program for Executive Development and has attended Nestlé Leadership Programs of the London Business School. I leave the rest, and request Mr. Narayanan to take on from here.

Suresh Narayanan:

Thank you Himanshu. Good Afternoon, Ladies and Gentlemen and Welcome on behalf of myself, my colleagues and on behalf of Nestlé.

I have been an FMCG veteran for a fairly long time, starting my career in 1981, with what was then called Hindustan Lever. I spent almost 16-years in Hindustan Lever and thereafter, I moved on as the Director of Colgate-Palmolive at the time when Colgate was going through a lot of pain, fighting the Pepsodent battle. I have handled challenges at every stage of my career and that was part of that

experience. But I was a Foods man in the Hindustan Lever and my career was spent in the Foods part of the business. So when I had the opportunity to come back to the Foods space in 1999 I joined Nestlé India as the Executive Vice President for Sales and I was also given the responsibility of setting up the chilled dairy business. In 2003 I was posted to Thailand to take over the sales and marketing of the business for Indo-China. That was really looking after Thailand, Vietnam, Laos, Myanmar and Cambodia. I spent about two years then came back to India as the Executive Vice President for Customer Development for South Asia Region that is India, Sri Lanka and Bangladesh. I spent about two and a half years in that role and I was promoted and sent as the Managing Director of Nestlé Singapore when Singapore was again going through the pangs of the 2008 downturn. And then I was sent off to North East Africa which is basically Egypt, Libya and Sudan. These are emerging countries. They were not as interesting when I went there, it was very-very calm. But within three months the Arab Spring started. Therefore it was four and a half years of pretty exciting spring if I may say so. But again the experience was truly gratifying and then I was promoted and moved as the Chairman and CEO for Nestlé Philippines which is one of the key markets like India is. I had a brief exposure there and then of course I was here as of the 24th of July effectively on the board from the 1st of August as Managing Director of the Company. That is briefly about myself.

So I have been in this space long enough and have the feel of not only India but also of other markets; some of them in the developed and some of them in the developing space in different stages of economic growth and with different stages of volatility. So what I really want to do today is to really upclimb the theme that I would like to suggest to the organization and also to take forward as an ambition for Nestlé India which is really to one of getting stronger up because we have been through a pretty stormy period and I believe that my colleague, Sanjay Khajuria will share with you subsequently on where we are on the whole MAGGI episode, but needless to add, I think it has been a period of a lot of challenge for the organization and I think it is also time to get together what is it that we are planning for.

Now, this is just a macro picture. You guys know it. This is really to set the stage in terms of the fact that look, GDP growth all said and done, whether or not we are equal to China or greater than China, the fact is this still continues to be reasonably strong and roughly estimated 8.1% by 2016, continues to be one of the highest growing economies in the world. What is interesting for us ladies and gentlemen is the fact that middle class population which is roughly about 500 million today is expected to reach, and these are estimates that are based on projection, and estimates that we are approaching about a billion in terms of the middle class and that is basically the aspiring, the striving and also the people at the upper end, the global citizens of the world. This is where we operate in. So if you were to look at a space for Nestlé, the space for Nestlé is not a strong rural India base but the space for Nestlé is an urban base, and indeed if you look at economic projections that are being made of this country, and the fact that I think a McKenzie study talked about it quite eloquently that 49 of the metropolitan clusters as they call it which is really cluster of districts with a metropolitan city have accounted for roughly 70% of the GDP in 2012. 77% of the incremental GDP and also a substantial part of the consumption will be coming out of these agglomerates. So I would like to propose to you the fact that I think there is opportunity for the Nestlé portfolio in an urbanized India going up from roughly 30% of the population today to close to 40% in the next 10 to 15-years. That is the kind of space that we would be strongly operating in because we cannot be just as human beings are positioned in terms of not everything to

everybody, that is hardly a sharp position, but making it focused in terms of what we mean as a portfolio would certainly be an important aspect of what we look at.

One of the aspects of our growth has been that if I were to take the F&B market growth in the Nestlé categories we have seen a bit of deceleration taking place, but the fact of the matter is that I do not think the future will be defined purely by looking at the past. There are certain phenomenon that are happening across the country and I believe that is important that company takes this into account and accordingly set into stage and there are roughly seven or eight key themes that augur for the organization because where do I get strategy from. I get strategy from a base and I get strategy from an interpretation of that space and making that into strategy in terms of portfolio, market and geography. Some of it of course I talked about urbanization and the fact is that it is driving consumption across the pyramid, the metropolitan towns are clearly growing, the mega cities are also growing, and becoming heterogeneous, the villages are transforming. So there is also rural spend up that takes place. Again, it can vary on a year-to-year basis but there is clearly a trend line that is positive. Literacy clearly operates and is advantageous to companies like Nestlé. Our products are based on quality, are based on nutrition, and therefore literacy is an important dimension of making that happen. So literacy correlates with income, it also correlates positively with consumption and finally, it also leads to improved standard of living because of purely improved earning capabilities as well. Rising involvement of women both in the work force and also in terms of purchasing decisions is positive as far as the Nestlé portfolio is concerned. Financial-enabled women, working women increasing, changing attitudes is also another aspect that is clearly important for us. The technology surge: This is again important not only as an industry but also in terms of the role that Nestlé can play and the portfolio can play. Surge in internet and mobile penetrations and brand products are under scrutiny. I believe that brands cannot any longer take their journey for granted. Simply because you have been a great brand for 200 years does not mean that you will be a great brand for the next five. I think one of the key learnings that we have had are coming out of the recent crisis has been that even your best known brands come under a hell of a lot of scrutiny and stress and the fact of the matter is that if the brand is resilient and strong enough you can strike back and I think it is a dimension and aspect of what we do as a company. Clearly growing e-commerce makes our portfolio; it is an urban phenomenon and in an urban phenomenon and urban portfolio makes it even more salient as far as the technology advantages concerned.

Health: We are a Nutrition Health and Wellness company. I believe that there is as you know very well in India, the double burden which is both over nutrition and under nutrition. Interestingly, it is not just a rural urban phenomenon or indeed poverty versus plenty phenomenon, the fact is that even in urban households you have micronutrient deficiencies because the necessary balance of diet does not come on the table. So this is an opportunity that is across the spectrum of incomes and households not just on any particular segment or any particular geography.

Deficiency Diseases: I just touched up on it; this is something that is clearly an area where Nestlé can play a role and where I see us playing a role.

Lifestyle Diseases: I do not know whether your saw a statistic and it is more to do with the fact that diabetes is probably one of the single biggest scourges that is going to impact Indians going forward next to China; today we are sitting at something like 65 million diabetics, 66% of the kids and you must

have read this study just published a few days ago; two-thirds of Indian kids have got elevated levels of blood sugar. So clearly there is a dimension of this. You can question whether it is 66%, or 56% or 46%. The fact of the matter is that it gets into a public space. There is clearly a dimension there that is becoming important as far as companies are concerned and where the play of Nutrition Health and Wellness and companies that have got expertise in that will be called to bear. So it is no longer just a simple question of putting together a product and selling it and of course proactive health. I think there are people who are looking at health and lifestyles and whether it is cardiovascular health or whether it is predisposition to diabetes. These are all features that are becoming important as we move forward.

There are of course the nomadic consumers. This is very-very clear. I think brand fidelity is no longer a question of life time. Brand fidelities can change very-very quickly in terms of how they see new products emerging, shorter shelf life of products, brands and relationships that is put into bear a greater challenge for companies, number of brands are clearly increasing and of course there is a greater social acceptance for switching. So it is no longer deemed to be something that is not done if you change from one brand to the other or indeed if you switch from categories to the other.

The last one I think is an important one; the phenomenon that is coming out of an economic and demographic surge that we are talking about, the bulging of the middle classes, is the fact that there is as much of consumers who are trading down because of an inflation halo as indeed there are consumers who are trading up. So, I think it is dual strategy. It is no longer a strategy that says, look, it is either going to be purely affordable products, it is also going to be products that is going to be defined by emerging lifestyles and also by the fact that there is consumption segments and consumption occasions which are clearly in the area of indulging yourself in something better than just having a plain vanilla product. I think these are some of the trends that are becoming important to us as a company.

This is what I was talking about -- the size of the prize is the fact that the middle class is very clearly bulging. I think one of the things we need to note is that the deprivation levels are clearly declining. So for any organization to really say, Look, I am going to be accessing this level, it is clearly a possibility, some companies are doing it and I think each company suits itself to the portfolio and strategy that it follows. But, for an organization like us, where the valorization is taking place is really these three segments. That would be really the kind of focus and energy that I would like to bring to the organization with all the experience that at least I have had and also that I am seeing emerging as far as this country is concerned.

Consumer attitudes are very-very clearly a changing and there are really four or five big ones that are becoming important -- one is of course multiple demand movements. It is no longer unidimensional in terms of consumption occasions, increased need for variety, nutrition indulgence is now getting, the boundaries are clearly blurring, not guilty food options are coming on the table, and finally of course instant feel-good foods. If I were to look at it and really from the initial kind of responses and then maybe it is too early to say the initial kind of responses to the reentry of brand MAGGI. It shows really how much people are taking this as part of their lives. It is an instant connect to a food that has been part of their repertoire for many years, that is safe and sound and there is nothing wrong with it, and when it comes back, it comes back with a resounding reception which I believe is quite heartening as we look at the reemergence of this particular brand. Earlier there were products that were meant for if

you bought something it was consumed by all segments of the family. So all members of the family had to consume it. Today, that is changing. Today, the issue for organizations, for companies is that of course increasing technology connects each family members to the marketplace and each one decides what they would like to have. So, I can have in the category for example of cereals, you can have a cereal for the kid and a cereal for the mom and a fitness product for a dad or whatever. So there are different segmentations that is clearly possible within the same category of a household, this is going beyond rice, dhal, cheeni kind of thing, of course, there is a commonality, you are not going to have too much of differentiation in commodities, but certainly when you get into the branded segment, emergence of this trend is clearly an important trend that organizations need to start looking at. Increasing technology of course is facilitating choice and of course segmentation is very clearly on the rise.

Valorizing Value: Again, as I talked about earlier, it is a fact that the impact of inflation could lead the poor to feel stretched but not really feeling poor. One of the things out here that is important is that even a small brand which is relatively low on price gets traction because it reflects a particular lifestyle and the poor like anyone else in the world do not want to feel poor, they want to feel part of a consumer revolution of a particular lifestyle. Indeed, coming up of these metropolitan agglomerations as we talked about is making that possible. So I do not have to go deep down into the rural hinterland to start on accessing people because in Gurgaon agglomerate, you have A,B,C,D. So it is not that Gurgaon consists of only A & B and then C & D are somewhere outside the perimeter. They are within the perimeter. I think the opportunity therefore is for really trying to, what you call of a cluster warming approach rather than pan marketing idea for all of India, which is of course going to be a lot more different in terms of size and scale.

Cities within A City: This is what we talked about. The metropolitan agglomerations that are taking place, straddling many worlds in parallel, sub-cities with purchase and consumption patterns, distribution of premium products and opportunity for PPP, both of them are there, it is not that any one of them is kind of outdoing the other, and of course, there is the emergence of what I call Shopping 24/7. There is no longer the question of waiting for a retail shop to pull up its shutter before you go and buy your product. I think accessibility, online shopping, home delivery are still fairly strong components of behavior that is taking place. So this in sum and substance is the kind of environment that is facing us. I have tried to put out the map for you of how do I and how do my team look at the landscape in terms of the Geographic Clustering, the Consumption Opportunities, the Value Up versus the Popularity Price Product Opportunities, the Segmentations that is taking place across and therefore the need for trying to have a more focused approach to portfolio, to segmentation, to geographic focus rather than to paint India with the same color. So that is kind of the environment that we are talking about today. That takes me to really the ten must win battles as I see it. I am trying to put it to you in the simplest and most straight terms because I believe that this is a strategy that does not need to be understood by only you but more importantly it also needs to be understood by the 7,200 people who work for Nestlé and people beyond. So if it becomes strategy in my brain and does not get translated into the ground, I think we are wasting everybody's time. So therefore, this is really trying to make it as simple and straightforward as possible.

Bringing Back Double Digit Growth: I think this is very clearly an ambition that I have got. But I am also a realist and let me be a very-very clear about it. You know we are coming out of a crisis. So if you expect me to have a magic wand and say, “Presto, next month is going to be a double-digit”. I am sorry, no, I do not think that is the approach that we take. I think we have to build it back. But I would like to build it back along with my team with a systematic focus, with making the portfolio worth for us in terms of what do we need to fix, what do we need to accelerate, what do we need to keep on a level keel in terms of the areas where we will continue and some areas where we may feel that these are not going to be the long-term horses that we are going to bank upon as Nestlé. So, I think it will be a combination of these.

Bringing Nestlé India Back To Stability: A crisis of the kind that we have been through has been huge. It has been huge not just in terms of the impact that you have seen in the books of account. Of course, we have talked about it and you have seen the results of the organization but for me what is more telling is the impact that it has had on the ecosystem around. We have farmers who are depending on their wheat, supply is coming in through flour mills, coming into Nestlé, we have got spice farmers who are doing it, we have got packaging fellows, carton fellows, transporters, distributors, retailers, outlets which are depending and selling only MAGGI as one of their key offerings, as an example, there is one outlet in the North Delhi Campus, called Tom Uncle and he sells 46 varieties of MAGGI and can you imagine in the last 5-months the poor guy had to shut down his place because he did not have MAGGI and obviously the consumers wanted MAGGI with whatever else that they were offering. So, I think there is an ecosystem impact that has clearly taken place that also needs to be brought back into even keel. I believe from the people side as well it has been a huge shock to people because I want to reiterate this that quality and trust for this company is paramount. The only reason you buy Nestlé is because you trust the quality of this product. So getting me on my strong suit to say that, “Look, you have kind of sold unsafe stuff,” is clearly not the kind of conversation that you would like to be in. Clearly, that is an area where those of you who have seen our factories or seen our facilities will realize that there is no way in which a company of this scale and this dimension and also of this kind of culture can ever involve its quality to be at stake. So, I think that has been a key part of the journey. Therefore, bringing Nestlé India back to stability would really be to stabilize the business impacts that have taken place, the after-shocks of what happens on MAGGI does get impacted and affected on the other business because the trade channels are common, the distributors and the distributor channels are common. So it does not mean automatically that just one shuts off and the rest of it becomes exactly the same as before. So, this is something that we are trying to do in terms of getting the stability back into the organization.

Learning to Manage Volatility and Adversity: This has been and I always maintain this and said it very clearly that to me a crisis is an opportunity, a crisis is not to be seen as an occasion where you just sit and cry and you curse your fate. If it has happened to you, as they say life it is not what happens to you but what you do with what happens to you. That is important.

As an organization, we are trying to look at it in terms of three key themes which is becoming more fast, becoming more focused and becoming more flexible. So different parts of the organization, what is it that I can do in terms of process, in terms of structure, in terms of response times, in terms of strategies, in terms of execution, that makes me these three. Because these are very simple, very

straightforward, there is no new magic to it. But the fact of the matter is that this is an essential part of the overall differentiation that we want to provide the organization as we move forward.

Revamping -- To be Fast, Focused and Flexible: It is nice to say that we want to be fast focused and flexible. But you would say, "What do you want to do in order to be fast focused and flexible?" I think we have got a plan there; some of it which has already been put in place. We have taken a look at our commercial structures and as a result of a lot of discussion within the organization I believe there is a strong need to get in greater focus, greater alignment and greater speed. So therefore, we have made some changes in our commercial structures in order to make them more simple because the simplicity of strategy is the comprehension at the lowest level. If a strategy cannot be understood by the salesman out in the van...I have done this for a better part of my career... I believe the strategy has failed because it may be fine in some book covered by some analysts but does not make any sense as far as the marketplace is concerned. So, what we are trying to do is to get a more seamless strategies that get executed in the marketplace with a stronger degree of focus. So, therefore, some of the geographic or twists that we are talking about being worked through because that is going to be an essential part of how we put it. So, where do we need to put our bucks in – Is it going to be socialistically across ten geographies or I say no, sorry, three of them are accounting for 80% of my sales, that is where it is going to be. The rest of it happens, does not happen, really it does not concern me. I go where the fish is. I do not go where the potential fish is -- that is the next part of the exercise, but the first part of the exercise is go with the fish swims because that is where you are likely to catch the most. It is a very simple paradigm, but I think it is an important paradigm as we become larger and as we get more into our portfolio.

Environment Response Mechanisms: Clearly, one of the areas that we look at is as a learning from whatever has happened, is the fact that the environment has changed quite dramatically. The fact that this environment has changed dramatically means that our response mechanisms also need to change quite significantly and some of the changes that we have made is in terms of the sensing mechanisms that we have at different levels of the organization including the geographies is to be able to pick up any potential volatility that can be addressed to at the highest level so that we do not get into a similar kind of problem of either misallegations, miscomprehension, miscommunication and miscarriage as a consequence because these are all quite serious as far as companies and brands are concerned.

Our People: If there is one single belief that I have had all my life, in all my professional career is that people make the difference. You as analysts I think, bet on people and probably less on strategies because you could have the most brilliant strategy but you have the lousiest people leading organizations... then I am sorry but it is not going to be particularly healthy response. So, we are putting in a lot of energy on really three or four simple themes. There is nothing complicated about it. This is nothing that Harvard Business Schools will be beholden to put it as part of a case study but these are I believe important in organizations -- Enablement, Empowerment, Engagement and Energizing. I think these are in terms of the kind of processes that we follow, the kind of calibration that we do for people, the kind of reward recognition mechanisms that we would like to put in place, to ensure that we have people who are fit for battle. Because one learning that you get is that you have to be consistently fit for battle. The

past wars that you have fought is of no real consequence when the future battle is ahead. So therefore, it is to try and build some of that into the organization that we are putting this together, there are specific programs that will be addressing some of these, and, of course, also to bring accountability with responsibility because the larger an organization becomes, the less accountability and responsibility rest at the same level. I think one of the clear approach is that my team and I are taking is really to try and see that there is an alignment between accountability and responsibility. So the person who talks the talk also walks the talk. Talking and walking has to be really together rather than two different points in time.

This is another area which is important to the company – it is the base, the Foundation of Nestlé. You know that the foundation of the Nestlé pyramid is “Compliance”. So compliance is something that we have taken on extremely seriously in an environment, not that we were non-compliant, we were compliant in everything that we were doing but except that the degree of sensitization to this has gone up manifold because this is now an important aspect of the way in which we will engage the environment. So Zero Tolerance for Non-Compliance. This is goal and ambition that I have set for the organization. Because I believe that once you set this it is a bit more of ease in terms of going about your business processes.

Nurture Key Partners: I think one of the key parts of the organization has been the great learnings, I think Sanjay will talk about, the great learnings from the MAGGI crisis that we have had. I think that is a great strength of this company is the quality of the relationships. Not a single big distributor of this company has left. Not a single supplier has ditched this organization. Not a single large vendor has left the company. I think these are all important because they went through five months of absolute hell; they had no business. You could have had huge.... And I am very proud of the people within the organization. I did not have one large industrial dispute. You could have people having a little bit of argument and skirmish. That obviously will happen when you have a crisis of this kind. But there was no major industrial dispute or unrest across the organization in the entire 5-6-months of episode that we have had. That to me is a strength. You could have brilliant strategies, you could have brilliant models, you could have great leadership, but if you have got lousy relationships across the value chain in a country like India you cannot operate, it is going to sooner or later hit the wall. Not because your strategies are lousy but simply because somebody is not able to get it done because the other guy just does not listen to you. I think this is an area you may call it fluff-stuff but to me this is an essential part of the business. You do not have this? You are dead. I think Nestlé is blessed with a lot of this.

So nurturing key partnerships, back to health and to trigger positive relationships is a very-very key aspect of coming out of this crisis and really taking us beyond.

The Key Priorities -- Consumer Services Engagement: You will be happy to know that Nestlé is probably one of the few companies in this country today which has got 24/7 Consumer Engagement Platform. Not only on the telephone but across all our websites, you want to call up anytime of the day or night, either on the product or the availability or the recipe or an issue. The fact of the matter is we have products for Nutrition that young mothers who have issue saying, look, my child is not drinking this milk or there is a problem or I have got some issue.

Not necessarily related only to our brand, it would also be just a motherhood tip. I think it is an important aspect of a company. I believe that it is something that Nestlé can offer because you would rather at that time of night trust someone from a large company who has got credentials rather than call up your neighbor who is a veterinarian and ask her that “How do I feed my child?” It is not going to be a particularly useful bit of advice that they are going to get. So, this is something that we are looking at very strongly.

Our Digital Media Engagement: I think you have seen our campaigns that we have done; a lot of it has got a very-very strong media content; a lot of it in fact was generated by the media responses...again, I do not want to steal Sanjay’s thunder on this but it is really part of that exercise as well.

Media Responsiveness: I think one of the issues that keep coming up is that “Was Nestlé silent?” “Was Nestlé not talking?” You guys have got sick and tired of seeing my face, I do hope, because I think there has been a fair amount of engagement that has taken place and I believe this is also the maturation of an organization that goes through a process because this was not the paradigm a few years ago, this has become the paradigm in the country today and I believe that you will not find Nestlé under my leadership wanting on this because this is clearly one of the dimensions that we are going to have in terms of responsiveness and also of course the friendly face of Nestlé which is really what we are. Our Motto is Good Food and Good Life. It is all about people, it is all about families and then the question of not being friendly is something that is anathema as far as the organization’s values and principles are concerned.

Team Work: I think one of the issues again in organizations why does efforts not translate into results, be it growth or profitability is because somewhere along the line there is a breakdown in team work, because someone is taking a silo mentality and saying that “This is not my job, somebody else should be doing it.” I think there is a strong role for leadership to be played here. I think not just me but also a lot of my senior leaders to ensure that we come as a result of whatever has happened to us, use this positively in terms of building in and fostering in greater team work which has been a strength of this company but I think which can be enhanced even more and to break some of the silos and to break some of the lethargic responses, that I believe that we need to do to perform. In sum and substance on this, while I am a pragmatist in terms of being clear on what the objectives are and what could be the kind of roadblocks ahead, I am also a man in a hurry as far as getting some of the basics put together in the organization because I believe that is essential for any success that we can make happen.

The last I believe Nestlé in 103-years of existence has got a lot to be proud of. We are and we have been a company that has been looked upon and be treated with huge respect at different quarters. Even today, when I go and meet anybody senior whether it is in government or media, the respect for Nestlé, the organization, is huge.

You may have quibbles on whether I spoke enough or did not speak enough. That is a different matter altogether. But Nestlé, the organization, has never been the cause for concern. And I believe that this is going to be something that is very clearly part of what we will try and leverage

in all the activities that we do, whether it is in sales or whether it is in other customer developments or whether it is in marketing or whether it is in engagement of employees, etc., these are going to be an important facet of what we are going to do.

End of it all, again, what to expect? You are sitting here, listening to me and saying, what the hell is this guy supposed to be like and what is he supposed to be doing for us. Let me put down the cards on the table: I would strive for greater innovation. That is very clearly something that is on my cards. Now, this does not mean that suddenly we will have 200 new launches and things will go ballistic as far as the categories are concerned. Very clearly, it is going to be brands which are strategic, brands which have got an opportunity, either geographically, income segment wise, brands where we have got a differentiation to offer. So, commodity play brands are not brands or new initiatives that will be greatly encouraged where I can have a play in terms of differentiation is where I will, and Nestlé can offer differentiation, it is not that Nestlé is short on offering the differentiation but really getting greater focus on this.

Moving beyond the crisis, I am by nature and I think the team is also very much in synchrony with this is not to keep crying over what has happened, what has happened has happened. Let us use the strengths of what has happened and move forward. I think some of the structural changes and some of the other areas that you have seen, very clearly is going to be talking about acceleration and speed in terms of responsiveness rather than to be bit more deliberate and slow. Speed does not mean rash. Speed means calculated, measured but very clearly picking traction and not losing traction. That is really the way in which we would like to take this organization greater engagement. I think greater engagement all across the organization inside and outside to really build the opportunities that we have across not only the business platforms, but also the other engagement platforms for the organization.

Commitment to Creating Shared Value: This has been a big piece. This is the reason why we exist as a company. Societal sensitivity is becoming as relevant as business performance. For Nestlé these have been together. And that is what we call Creating Shared Value.

If you look at our global market capitalization, it has gone up something like 30x in the last 20-years. It has been also not the result just of pure business parameters, some good years, some not so good years but the fact that the links and relationships with the society and the communities have been strong. I think this is something that you will encourage a lot.

Last but not the least – Greater Talent and People Capabilities: The longevity of organizations has seldom to do with pure robustness of brands but really robustness of people. One of the mindsets that I keep repeating to my people is that there are no mature markets, there are only mature managers. So the thought that you can or cannot get growth is a question of how mature or immature your mind is, is not that the market out there does not offer you the opportunity. But I think this is really in some of the substance what I thought I will share with you as some of the initial thoughts to thank you all for being here today, and of course to thank you all for the support that you have provided for the Nestlé organization, to my predecessors and to the

leadership as we have traverse this journey, and also as we have been through the difficult crisis that we are now in the process of coming out of. So thank you very much.

Sanjay Khajuria:

Good afternoon. Actually Good Evening just now.

I will quickly take you through the MAGGI Noodles issue. I am sure all of you would have read bits and pieces in media in the last few months. So this is basically a comprehensive update on what happened right from the beginning till now. You may recall the whole thing started in 2014 sometime March-April, when a public analyst in Barabanki in Uttar Pradesh looked at MAGGI Noodles sample, picked one sample and he declared it misbranded because he found Monosodium Glutamate positive and the declaration on the pack was that it has no added MSG written on the label. On appeal, we sent the sample to the laboratory which is referral laboratory in Kolkata. The Kolkata lab actually took about a year and the sample took about 2-3-months for analysis and came back saying the lead was higher than the permissible limit and they also found MSG positive, and they have first said that it is misbranded because we had written on the pack “No Added MSG.”

Before I take you further, “What is this myth about MSG which is going on?” I am sure many of you would know that Monosodium Glutamate is actually known as the 5th taste – sugar, salt, bitter, sour and the fifth unique taste which came maybe a century back was called umami and it came from Japan. All protein-rich foods and a lot of these foods we eat everyday like cheese, milk, groundnut, tomato, etc., they all contain Glutamate naturally. So it is not that it is added into those products, it comes through nature. MAGGI Noodles also has some of these ingredients. So you have hydrolyzed groundnut protein, you have onion powder, you have wheat flour, you have spices. So the moment you have Glutamate, it will show positive.

Regulations in India are very-very clear on this: They basically say if you were to add Monosodium Glutamate which by the way can also be used as a flavor enhancer you can get it off-the-shelf from the market. If you add that one into your product, then you have to declare this package contains Monosodium Glutamate. Conversely, if you are not adding it and if you are writing “No Added MSG” regulatory perspective wise there is nothing wrong. We have maintained that stand; however, and I will take you through it a little later, when the whole thing started, we found that there was some confusion because of so much of media and regulators talking about it. So we voluntarily decided to remove this. Does not mean there was a regulatory or a legal issue around it. Why the question of lead? You would have read some samples got failed because there was higher lead. Lead as you know is found in earth crust, everywhere, even the paints have lead, the batteries would have lead, the soil would have lead. Regulators realize that you cannot have a zero lead situation. So what did they do? They fixed toxicity limit, what is good and safe up to what limit. So for lead, for example, for products like MAGGI Noodles, they fix 2.5 parts per million as the upper limit. For us, we regularly monitor levels of lead, be it water, be it raw material, be it packaging material which we get into our factories, all the suppliers provide us any raw material are audited by us, not only for lead, but all heavy metals and all contaminants or toxins which can come into the product, we do regular testing, it is not that we started testing after we heard about there could be lead, we have been doing testing all

along. All our tests have shown lead to be a much below permissible limit which I mentioned is 2.5. You would also recall that the high court had mandated laboratories to do the testing, they have done these tests twice over; once the old product which was already existing when the whole issue was going on and then the freshly manufactured product, all samples were 100% below legally provided limits, much-much below.

Suresh alluded to this – In Nestlé, we all work for quality. For us quality is equal to trust. 300 personnel work in India on areas of Food Safety. Just to show you the seriousness we give to this area – there are 11 laboratories with whom we work, 9 are internal laboratories and 2 external laboratories. Our laboratory at Moga internal laboratory has all the accreditations which are required and it has the capacity and capability to test heavy metal, antibiotics, Aflatoxins, you name it and these labs have it. just to mention that this lab actually can test parts per billion and here you would recall we were talking parts per million so we can go to that extent. Globally Nestlé does about 100 million analysis so you can just see the scale of analysis which are being done. Therefore, when we said we are safe and we were getting test done as we speak we have got over 3500 tests done in the last few months, all the tests which have been done whether it is internal laboratories or external laboratories and it is roughly half-half the testing which has been done everywhere it is safe and I will just show you the chart to show where the numbers were. Eight countries analyzed noodles exported from India while this issue was going on everywhere they said it is safe for consumption. Three accredited labs and I am repeating this here both existing and newly manufactured products found the product safe. Just to show you on a graph how the test looked like. We did 3566 tests and barring two which crossed 0.5 ppm, almost everything is below 0.5 ppm and the legally permissible limit is 2.5 ppm. So we were that low. Therefore when we kept going out and saying we are safe we had the data to really substantiate. So we mentioned Barabanki, we were complaint and confident and Suresh spoke about it, we were going to state regulators, state authorities, central regulators, central authorities with all the data which we had that time. We showed them the analysis report of what we were doing in the factories for the last many years, we also showed the test which we had done and we also spoke to them as to what monitoring we have doing for many-many years and why we feel we are safe and high quality. However, the situation did not change and I think this press release which we gave on 5th June at 12.30 am reflects it also I am just going to read it. “MAGGI Noodles are completely safe and have been trusted in India for over 30 years and the trust of our consumers and safety of our products are first priority. Unfortunately, recent developments and unfounded concern about the products have led to an environment of confusion for the consumer to such an extent that we have decided to withdraw the product off the shelves despite the product being safe.” We were convinced it is safe, the reason we decided to withdraw the product was the consumer confusion and for us we have full trust, we want trust with the consumer, and therefore once the management realized that there is a confusion in the consumer we decided to withdraw. And to show the seriousness the moment we issued this press release we started working on the withdrawal process. Sometime in the noon the same day after about 11 hours or so FSSAI ordered the ban on manufacture and sales. The order of FSSAI and why this is important is when I take you through what happened in Bombay High Court, FSSAI basically said that you recall nine approved variants, they also said you stop production and they asked us to rectify the label for No Added MSG. Having said that while in our meetings with them we had already conveyed to

them that voluntarily we will be okay removing this and we were in the process of making changes and they said withdraw MAGGI Oat Noodle because you did not have the product approval. Our stand has always been that when we launched this product because of a Bombay High Court order the whole product approval system was suspended and finally Supreme Court actually quashed the whole product approval systems. We filed the petition on 11 June and within two months Bombay High Court a division bench gave us the final order. So what did they say. They said we are setting aside the ban. Principle of natural justice were not followed. They also said that the lab which were conducting test basis which this ban happened were not accredited to do the testing here we must remember that any laboratory which has to do the testing should have the necessary infrastructure equipment, it should also have the process which is mandated and very-very importantly the personnel who are working there are well trained and are capable of doing the testing and NABL as a body does this checks and do the accreditation and they also look at what sort of tests a laboratory is allowed to do. So it is not that once you have an accreditation it is a blanket accreditation, it is scope and what they can test. Court also mentioned that Nestlé had voluntarily agreed that we will withdraw the statement no added MSG from our pack and in any case besides this cannot be a ground for ban because misbranding does not amount to ban under the provisions of food law, and they said you file the application for MAGGI Oats because procedurally we said that we had given all the replies, the FSSAI said the replies were not filed. So rather than getting into the merits of this they said you file the application for MAGGI Oats Noodle and then they will decide.

Bombay High Court also said, that let us look at public interest a little bit more and see new testing and what the results are? So they said out of the already manufactured stock, you send samples of each variant to three laboratories, one in Mohali in Punjab, one in Jaipur and one in Hyderabad. 90 samples were sent to these laboratories and as you would have read in the news all 90 samples were 100% clear. These samples were taken by the relevant officers of FDA in Punjab in Moga, they sent these samples under their direction to these laboratories, they got the reports and they gave us the reports. So everything was done as per the procedure which Bombay High Court had mandated. Once the sample got clear we were allowed to manufacture the products, which we did. The new product were again sent to these three laboratories for testing and again 100% of the samples were clear and the sales then started which was on 9th of November.

The present situation is that out of five manufacturing locations where we were manufacturing MAGGI Noodles before this issue started we are already manufacturing in three locations, in other two locations we are discussing with the authorities to get direction and clarifications. On the sales side most of the States you see are in the green, they have cleared us for sale. There are seven states, however, in Uttarakhand, Himachal, this is also related a little bit on manufacturing, Orissa, Bihar, Tripura, Manipur and Nagaland where we are still engaging with them as to which date we can start. They still have to issue us a little bit of formal orders on this.

Before I go further there are two points I wanted to make. When we decided that the withdrawal starts, we wanted to do it in a very-very proper, professional and efficient way because we decided that recall will happen. Immediately the moment we said that we are going to start

withdrawal, we started issuing order. So if you see here within first few hours and days, the manufacturing stopped immediately. The stocks at depots and order processing which was in our control stopped within few hours. Even the distributors who have supplied our product to third parties even their stock stopped. So we took all due diligence and care that once the decision to withdraw has been taken we do not move any further. We also made sure that on a daily basis we send updates to Food Authority so that they know what was going on and there is no confusion between what we are doing and what the understanding is. We put in a dedicated Toll Free Number and Customer Care Center of 100 seats, they were 100 seats which were looking at any feedback, any issue which was coming on recall, any customer, any consumer could call up, we put all the recall information ads, it was on our website but we realize there are not too many people may want to go on the website so, we started to put it in the newspaper. We approached 10,000 households so, imagine if you had two packs of MAGGI Noodle and you wanted to return and if you made a call we would come and take it from you.

The withdrawal is not an easy phenomena. Companies are very used to selling so, you take the stuff your distributor takes it to retailer, retailer then gives it to consumers. Imagine while this issue was going on we were selling the regular normal products, we were also bringing back the noodle from various places, so you can imagine how much of a logistical, if I could use the term nightmare, it was. Any consumer could actually return the product to the CSD because we supply a lot to Canteen Stores Department, it could return to modern trade, it can go to the roadside, his neighborhood retailer, he could go to the wholesaler, he could go to sub-stockist, he could also return it through a Nestlé employee, a distributor employee. So when 10,000 of these contacts were made and we went there they gave us few packs which we got at this end. All of these were going to the distributors. In fact, the Canteen Stores Department and modern trade they were also sending it directly sometimes to the distribution center which are our godown so to say. We also had some consumers who had taken our product for their promotion they were also returning the products, so you can imagine roughly 450 million packs they were in our control or outside our control but they were coming back so all these came to distributor from this it went to distribution centers, also these people could send these to their the Nestlé Factories plus a contract manufacturer and then to incineration centers.

Just for you to know that Nestlé products are available in roughly 3.9 million retail outlets. So technically each of these retail outlet could have had MAGGI Noodle which are to be taken back. While Shobinder will talk about the numbers as to what was the hit on us, the hit was very big on our suppliers. We buy wheat from roughly 400,000 farmers who gave it to the converter who in turn give it to us. There are 15,000 spice farmers who provide to our spice supplier and we buy it from them. So imagine when we stopped what was the state of affairs. We have over 100 suppliers who have 10,000 employees. When we stopped obviously they also become very very slow and the partial production was happening at their end. While we made sure that none of our employee his job is at risk, unfortunately, a lot of service providers who were providing contract workmen to us they had to let their people go. They tried and we tried that they could be redeployed somewhere else but not everyone could be redeployed. What we tried to do from our side, we worked with the service provider that some fair and competitive compensation could be given to these contract workmen as well. We have over 1,300 distributors and many of these

distributor majority or bulk of their business was also coming in from MAGGI Noodles so, these guys also got impacted. 4 million retailers, the kiosk which were making MAGGI Noodles and selling it, you go to Ladakh and you see at the highest point MAGGI Noodle is served. So these guys also got severely impacted because they could not find the replacement immediately.

While this issue of MAGGI Noodle was going on in the High Court and we were doing the testing, around 11th of August a complaint got filed by Ministry of Consumer Affairs in NCDRC so, it is still going on they asking compensation of over close to \$100 million. However, the main allegations which are levied in this complaint are very similar to what we had already dealt with and Bombay High Court has passed an order on that. Right now the status is that NCDRC has sent 13 samples to CFTRI in Mysore, next hearing is next week so, we will get to know the results at that time. We are as we have conveyed earlier, very confident of defending this litigation, we have done all the test and we find our product safe.

9th November was a happy day for us, it was Dhanteras day, eve of Diwali and we launched our products within few hours when we started invoicing we actually touched all four corners of India. So by 7am were even in place like Leh and Guwahati we were available. As things stand today, we have reached 350 towns, we have sold over 30 million packs, 724 distributors have been invoiced and we have already covered 120,000 outlets. So you can see within this short span of time, the reach has been quite a lot.

Some happy faces when we launched on 9th, there overwhelming response, you can see the geographical range in these photograph. And before I close, I just want to show you two commercials. And we also video graphed some of our stakeholders and see what happiness on their faces and in their wordings. So this is the welcome we have got, overwhelming response, last few days have been very very interesting. Thank you very much.

Shobinder Duggal:

Sanjay has told you the whole story very articulately, let me put the summary of the financial figures, **(Inaudible) 1:11:18 [inaudible]** which you may be aware of already in one way or the other through various press releases **(Inaudible) 1:11:21** as well as in the Analyst Call some of you must have attended after the second quarter **(Inaudible) 1:11:27**.

So we have taken close to 24,000 tons back on the market including the distributors, outlets, et cetera, and the value of this was close to 3 billion, 3,037 is the sales value which has been reversed taking the stocks back. That is the impact on the top line of the sales reversal. If I take the whole cost put together including the cost of the stock which was withdrawn and it is not the sales value it is the cost of stock, the total turns out to be 4,762 millions, I repeat this is the cost of the stock as well as other cost which were incurred to do this entire withdrawal exercise and whatever Sanjay has detailed the number of activities which were involved there, the reverse transportation, obsolescence of materials and so on and so forth so, big money. There were some stocks which were at the distribution centers, there were stocks at our factories and they also went obsolete as well either destroyed or are pending destruction under the Court orders. If I take all the stock into account including the one which is returned and those which were at the factories and at the DC, the total is close to 35,000 tonnes which is 2.5 billion around. That is

more or less the cost which has been incurred or sales which have been reversed in carrying out this entire withdrawal exercise under the MAGGI crisis.

Why this is important for you to understand is that, this in many ways has impaired comparability of a lot of financial figures which you have been use to see here in a certain pattern over the last many years. Why I am brining this up? When I come to the main presentation to discuss the business financial I had no other choice but to make you understand, the business a little bit better. I have changed the entire presentation to make it more contextual given this background of this MAGGI crises.

If you have a look at it in another way, roughly two-thirds of this cost actually was already incurred and it never got converted into creation of economic value but actually that cost destroyed value. And on top of that we had to spend one-third more which of course also destroyed value. With whatever Sanjay has mentioned I think by now you would be fairly convinced that this entire money which has been incurred to defend the crises has essentially a value destruction exercise. But two-thirds of that would have not happened had this crises not been there it would have been definitely passed through in sales, in profit, etc. etc. One-third is the incremental cash cost more or less which has been incur to run this crises through and while I am sure that you coming here repressing the investing community but you will be surprised when you see the next slide that of course, the investors lost money because of this crises but there are a lot of other people who lost much more.

Sanjay, has given you some numbers on the number of people who got impacted and I do not want to repeat that but I think we should not forget that the government actually in this exercise has also lost a significant amount in terms of contribution to the Exchequer besides the suppliers and so on and so forth. The shareholders if anything have lost comparatively less as compared to the others. This pie is not being driven by the sales which we book as sales in our financial results, this pie has been drawn based on what the consumer pays. So when you see that the figure was 2,500 crores what we talked about in the Analyst Call, this pie is not giving you the explanation of the 2,500 crores, so please, my humble request to you is from here do not try to extrapolate the profitability of noodles because I can assure you, you will not get it right. And then if you try to guess it and then you will try to come back to me I will not respond, I am telling that right now, just to set the expectations right. But the idea was to give you a little bit the big picture here that it's not on the 2,500 crores, if anything it is close to 3,200 crores or something like that if I am not mistaken. Kamal, this is about 3,200 crores the consumer value?

Kamal Kedia:

Yes.

Shobinder Duggal:

So but just see, who all has lost how much in this game and for what? I will let you judge for yourself whether it was fair and square game or not?

Moving from here, I would like to share with you that despite all these issues which we have faced we still turned out to be improving actually one notch, on Nestlé in the Millward Brown study which was released in September 2015. Yes, one would argue that the study must have

commenced much earlier and the results came in September but whatever we know the study was still being concluded when the crises had broken and despite the crises on MAGGI it is still turned out to be number 30 on the top 50 brands. So if you go back a little bit to what Suresh was trying to talk about a little earlier on the Proud to be Nestlé, for sure this is one of the key attributes that the brands are so powerful that despite a crisis like this where the quarter of your turnover is washed out overnight and you are embroiled into controversy of this kind, the brands still hold good with the people who really know how to value the brands. This is how the market has done in the first nine months of this year compared to the first nine months of 2014. Yes, the total FMCG has grown from 6.8 to 11.9, F&B from 8.5 to over 12% but the relevant category is for in which we play they have seen a decline from 8.8 to 8.1 and these statistics are directly sourced out of Nielsen data which they publish. Yes, it is true that the 8.1 has got impacted with this whole noodles category coming under the pressure which it came during the crisis and you could argue that the figures without noodles would be different of course they will be. But the whole idea is not to do a mathematical reconciliation to say how much is with noodles and how much is without noodles. The idea is that when you see our performance over the quarters, it will give you a little bit of semblance of how far has been the Nestlé India performance from the category performance despite the circumstances which we have faced over the last more or less two quarters. That was the purpose of showing you these figures.

So let us go to another slide which should be a little bit reassuring for you as well, that yes, we have been receiving a lot of comments and a lot of reports about lackluster performance specially on the top-line, our inducement to protect the bottom-line being higher than the inducement to grow the top-line, those kind of comments have been coming. But I still think it is relevant to see that despite all those kind of growths which we have reported and naturally your community has not been very satisfied, we still maintain quite strong number one positions or very strong number two positions. And this is cumulative picture which is not Jan September but the rolling MAT as they call it. So yes, arguably, you have the advantage of one quarter of 2014 in it but still the way the turn took place in the last two quarters we have still maintained the value leadership. So it is again just to give a little context of the performance rather than justifying it.

If I now move on a do a little recap of the first nine months performance so, unlike each time when I came here and reported to you, we have added 5 billion, we have added 6 billion, we grew by this much, we grew by that much, actually, our top-line has got shaved off by 11.1 billion largely due to what you have been hearing from Sanjay for a while now and the growth on an aggregate basis have been minus 15.3. Naturally, the volume growth and consequently the real internal growth have to be negative here. Our profits from operations what you see here as 10.4 billion which is 16.8% are a little bit overstated from your perspective but correctly stated as per the Accounting Standards and I will come back to this a little bit later.

The 4.8 billion is the exceptional cost which I explained to you a little earlier on the MAGGI which is about 7.7% of sales. Consequently, our net profit came down to 3.8 billion an intensity of 6.2%. Earnings per share dropped from Rs.89 to Rs.39 that is the top-line or the highlights for the first nine months.

Just to get you a little reminder, if you see the last five quarters before we got into this MAGGI crises, we started soft in 2014 with around 3% then inched up to 9.3 it was 8.9, 11.7, 8.4 and then we had the impact in these last two quarters of what you all know about. And these growths which we have given in the previous quarters in 2014 and the first quarter in 2015 and again I do not want to get into dwelling, how much of it has been pruned out of the portfolio rationalization and things like that, but it is true that during all these quarters we kept on trimming the portfolio which has lost relevance and since the size of that was relatively large and it was going little by little, little by little these growth rates were impacted. So if you now see these figures and you see somewhat the Nielsen figures, we certainly have not outperformed for sure but we have not dramatically under performed on those quarters, could have we done more? Of course, yes. That is the picture I wanted to show to you here.

The second part which I wanted to show here was that a company which was clocking in close to 5 billion of operating profit every quarter, it has almost come to half in the last two quarters. That is a little bit important for you to capture this essence. How do the volumes? They have tanked by 36.7% nine months to nine months, largely contributed and you will see as we go by we will try to give you some details on it so that you can get a good understanding of how much was it because of noodles and so on and so forth. But that is large contribution there and turnover down by 16.3 on the domestic sales. Exports down by 10.6 and in terms of value 1.1 and exports have also been impacted by MAGGI Noodles because Sanjay did show you some names of the countries where they were being exported. So we had some sale there as well.

Now there have been a lot of reports which came saying that our other portfolio has declined by 10% in volume 7%-8% in value etc...etc..., so I am just brining all of us on the same page. If you neutralize the impact of MAGGI Noodles and if you neutralize the impact of the so called portfolio which does not make any sense for us like selling of fat and so on so forth and the other portfolio optimization, our volumes have in the rest of the business gone down by 6.8% and in terms of value we have grown close to 2%. I am repeating again, that the 6.8% and 1.7% are not comparable but it was too much of an effort to make rig calculation on a comparable basis, yet you can get a sense of what it is on a comparable basis.

Naturally, with what has happened, the whole contribution analysis of the portfolio has changed, well last year when we had close to a third of the portfolio on Prepared Dishes and Cooking Aids their contribution has come down in these nine months to 17% and the others are more or less the impact of this change over in configuration on the portfolio.

As I said just before when I was giving you a little update on the MAGGI Noodles cost from here usually in previous years I use to go into the categories and explain you what happened to each category value, volume etc..etc.... Now, I think that, detail or those charts are not that relevant for this Analyst Meet and therefore I have substituted them with some other charts to give you to give you some more insight about the portfolio. And this is one of them, so if you look here at our first quarter we had clocked in 23 billion of sales and this is all domestic sales not the total sales, just keeping exports out of the discussion considering their materiality to the overall portfolio. So we had a 7.6% reported growth and if I was to take the comparable growth

of the portfolio without noodles and portfolio optimization etc..etc... it was 8.4. And the underlying real internal growth for that was 0.7%. What happened in quarter two that we reported a growth of minus 20.6 which on a comparable basis is 1.6% so, that is how the rest of the portfolio which was growing at 8.4 in the first quarter grew only by 1.6% and the real internal growth was minus 3.

In quarter three, where the impact was actually the full impact because in quarter two you still had a few weeks of MAGGI Noodle sales. The reported growth fell down to 33.8% with a value of 15.9 billion and here is actually where you had the real impact or the big impact because of the time period through which the crises was going on. It was more the quarter three where the whole thing was being felt.

Now, how much of the minus 4.5 or 1.6 has been contributed by confectionary? How much has it been contributed by beverages? How much has it been contributed by milk and nutrition? I can give you the figures but they will not make any sense because it is extremely difficult to isolate the impact of what this crises had on our portfolio. I think I am at this stage I may draw a little analogy when you might be reading the number of recalls made whether its by Toyota, Honda or whatever, whatever. Now, if you ever have one of those vehicles even though the notification in the newspaper says that model that year is being recalled for this purpose. And if you happen to have the same model of the car when you sit down in your car for a second, you do think I am driving the same brand, you forget the year and you forget whether it is a SUV or Sedan or whatever. So this is the reason, why I am giving this analogy to you is any kind of pulling out the variances here in my view would be misleading, we are unable to isolate how much is because of the crises? And how much is because of other things? But definitely, this is a mixed off effect. I thought that this was important for you to know rather than trying to say confectionary so much and so on and so forth.

Now, likewise some of you have tried to analyze our margins and I thought that it will be best that we peel the onion for you here. If you see here, in the first quarter, our reported material cost as a percentage of net sales was 42.4 which was 44.2 in quarter two and 42.8 in quarter three. Without bogging you down with some of the absurdity in the way the recommendations are to present the results in a certain format, I believe that the true material cost is 42.3, 43.3 and 42.4 leave alone those movements in the conversion cost and all. And these clearly you can see that have been very favorable to us, close to 400 basis points ever quarter has been the improvement in our movements of net material cost as a percentage of sales compared with the same quarters of 2014. Where is this improvement coming? It is coming largely from two areas one is from the commodities cost and second is from the carry over pricing which was taken earlier in 2014 and it carries on. And if you see, the pricing impact actually coming down and third quarter is only come down to 80 basis points where it is was close to 440 basis points in the first quarter. You may question in your mind that why do we have a negative 60 basis points on the commodities in the first quarter? Actually the commodities prices variance was positive this was the impact of a reverse cycle of the inventory cost which was carrying of Milk Powders at the end of 2013 and end of 2014 so, that has impacted and the rest of all mix impact etc . etc... So the key message here is that the gross margin as you call it on your thing or net material cost

as a percentage of sales has been relatively good and the goodness has come essentially due to the commodity markets as well as due to the fact that we had taken some selling price increases in 2014 which carry on into 2015. There were very few selling price increases which we took in 2015. We have taken as you know MAGGI Noodles price increase in the quarter one, from 10 to 12 and so and so forth but then those sales never remain for very long.

Just to give you since some of you look forward to these slides, this can also be demonstrated in the index of Nestlé India commodity basket which sees for the first time I do not know after how many years this chart only tracks it here from 2010 but if my memory goes back from 2005 to 2006 so, even 2004 I have not seen a negative figure this is after a long time that you see this is a case. As far as Milk is concern, this is the picture which you can see that 2015 by in large has been lower than the figures of 2014 and from here you can see what was the price at the end of the 2013 and what was thereafter end of 2014 and then you will understand the comment I made on the negative part on the commodities in quarter one. Strangely, so but okay, this is MSK which is behaving pretty much in line with fresh milk prices, but strangely so if you see the international prices are lower than the domestic prices and they continued to be low. And if you see in quarter one 2014 the prices were very similar and now see for yourself where are the Indian prices and where are the international prices on Skim Milk Powder. The same sentiment gets reflected in a fact and a similar sentiment gets reflected in Full Cream Milk Powder. I think this is a little bit relevant to get an overall context of how the international markets and the local markets on milk are not so dependent to each other. India can carry on playing with these price inflations despite the world market on milk solid's being far lower. That is the short point because many times stimulations are done assuming international prices but the fungibility here I think is demonstrated by these charts.

On Coffee also things are quite nice. Likewise for Wheat Flour yes it is gone up recently and with some announcement perhaps it is harden a little bit. Palm Oil quit soft, Sugar also quit soft. So in general, I would say that, commodities have been soft, have been bearish and the outlook also looks quit okay at this stage. In terms of other variable cost we have been able get close to 150 basis points to 180 basis points every quarter through savings as well as through something which I think all of you know but I wish to reiterate the magnitude of these drops because I think we also have to remember and I think yesterday or day before it dropped back to \$40. From \$40 it cannot or it can go only that much low I think I let you judge where it could the big steep decline has already come through and this is got factored in to the P&L.

All right, a little comment on how much are we supporting our brands and there has been some guess work around these figures. But you can see here that during these three quarters there has been a good support behind the brands consistently quarter after quarter. And finally, the issue which has come on the margins needs to be understood from here that what you have seen the reported figures are the figures which you cull out from the if you were to decode the press release and that is what you will see for a 4.50 billion, 4.1 billion, 4.7 billion fixed cost but if you bring back the exceptional cost which was taken below the line the quarter would look like 4.50, 4.7, and 4.7 the issue what happens is an organization or a company running at a fixed cost or structural cost of around 18% all of sudden has that figure going 24.2 and the subsequently

27.1. I think this is the key issue from where the numbers have wobbled up from the second quarter to the third quarter it is more or less the impact of absorption of the fixed cost because of no sales or negative sales of MAGGI Noodles. And consequently, the profit from operations of a company which was running a margins around 20 odd percent which you saw dropped to 16.7 and then to 11.4 from an operating perspective the figures drop from 20.6 to 13.7 and then to 11.4 and the margins on a sequential basis between quarter two and quarter three were essentially the scale effect which has been off set with some other savings and a favorable cost coming in materials as you have already seen. So I think this is a little bit important that this 300 basis points between 16.7 and 13.7 and if you would recall when we had the Analyst Call I had mentioned this to you at that stage itself this is going to happen only thing was we did not quantify at that stage how much it would be because it would have dependent on the sales. This is a little bit which you need to keep in mind for your evaluation purposes if you will.

Tax rates had been okay but one of the reasons of having better Tax rate also been that the generation of profit from tax holiday sites versus non non-tax holiday sites to the ratio of profits has change so the intensity has become better that is what you see here. In terms of the net profit, yes. it is gone down to 6.2 from 11.8; first quarter it was 12.8 drop down to minus 3.3 in second quarter; recovered back to 7.2 in the quarter three. But the big mover and shaker of course is the exceptional item which you see here has taken away 510 basis points of the P&L.

Finally in the cash generation not what this organization has been use to 16, 17, 18, 20 I remember last time when I was talking to you guys, I was explaining you that it was 20% in 2013 and I was trying to explain to you 20 was artificially high and 16 up. I was explaining from 20 to 16 and today I have to explain you from 16 to 11.6 but okay, the good part is still that there has been still not too bad a cash generation despite what has happened. We still remain debt free, which we got last year our AAA rating has been reaffirmed by CRISIL in June 2015 and that was right in the middle of crises. Of course, our earnings per share as you know have come down and naturally the return of equity we will see it from that perspective has dropped sharply on a nine month period. And therefore, our interim dividend payments in 2015 have not been the way you had seen them in the earlier years. I think this is what I wanted to share with you to give you a little run down of the picture and then we can go through some specify questions if you have, in the Q&A.

Abneesh Roy- Edelweiss: Hi, this is Avnish Roy from Edelweiss. Sir, my first question is on innovation you said that your one of the main focus area will be on innovation. So could you tell us from your parent portfolio which are the innovations which are relevant for India on a two years to three year perspective. MAGGI obviously has a taught task even from here so, will your innovation will first focused on MAGGI, second will focus on you existing for example chocolates you do have a huge blank space on chocolates also and will new categories, will they be the third one, will they be in this priority and so first one year there will be no new category are you elaborating like that?

Suresh Narayanan- Nestlé India : Look for me the whole area for portfolio development and innovation is really divided into three segments. The first segment is going to be really to try and fix some of the current brands in terms of eager they offering that they have got or indeed what we call as renovation of

these brands. So some of the brands in the chocolates and confectionary portfolio for example or some of the brands in the coffee portfolio for example would really come into that category which is really trying to sharpen, trying to focus better, and trying to offer better value for whatever we are giving in the existing brands. The second element would be that I think Shobinder showed it to you in terms of the strength of our brands. If the option that we have as an company is to try and just get in some brands from overseas and pluck them into India. But I would submit to you with all my experience and with what I observe in market place that is not very sustainable idea. The idea is to try and leverage the existing brands and what can you do with it. For example in MAGGI, we have got a strong noodles business hopefully we will get back to it, we have got pasta business, we have got sauce business. We can look at extending MAGGI into different offerings and categories and I think that is an opportunity for us which we clearly got in whole MAGGI space. Now in terms of Nescafé there are opportunities in Nescafé space that we have got. We do not need to get another brand and make that into it you can get into technology and offering in order to improve the sellings of that. So that is the second piece how do you stretch the existing brands in terms of leveraging it for new offering. The third piece is to really open up new categories and you are right, there are opportunities and we will be evaluating it in terms of where we can get in. To me the criteria is really very simple and straight forward. What is the size of price? How bigger brand can we get out of it? Number two, what is the sustainable growth we can get? Number three, what is the sustainability profitability that we can get out of this business? Because anything that goes dilute it the longer term it is not something which is in the share either to shareholder or in deed of the organization. So this would be really the three platforms that my ideas working around the whole renovation innovation piece. To be very honest with you in terms of time lines obviously the first one would be to fix what we need to fix, right. The second would really be in terms of combination of some new offerings and existing brands and opening up some new categories then of course expanding it into more full blown renovation innovation program as you go forward.

Abneesh Roy- Edelweiss: That is quite useful. My second and last question is on the noodles portfolio, after the MAGGI shown the entire category also collapse the 90% and we saw the results of the other players also suffering because of that. Based on your experience, when do you see that category coming back to that 100%. Second is that 72% market share due you expect is to get back realistic speaking, pragmatically speaking because you have now one Patanjali also the Rs.15 price point of Atta Noodles and then you have number two player which had a free run. So do you really drastically expect to get that 72% market share and by when?

Suresh Narayanan- Nestlé India: Look, I do not want to sound like a sooth sayer or crystal ball greaser because I think what you need from a CEO of a company is I think pragmatism, realism and certain transparency in terms of how we approach it. Yes, to be honest, I do not see it as being an easy journey so do not get me wrong this is not going to be as I switch on the button and tomorrow MAGGI is going to back to whatever it was. I think there are two things or three things that are important to while making the assessment where MAGGI can get. Number one is MAGGI has got huge equity. That is something that I do not really think if you look at the responses that we continue to get I would not like to question that propositions does MAGGI have equity? MAGGI has got huge equity. Obviously, the element that has got into a bit of doubt which has been unfortunate, but

that is a doubt that is been seeded in the minds of certain consumers is on the safety of the product. Now, you would see that the communication that we are trying to do and the communication that we did in we “Miss You Too” campaign is marked by three things. It is very simple, it is very straight forward, and it is to the point. No, I am not trying to beat around a bush and say things which I do not need. So I think that will be the second platform that we would work on focus on both the safety of the product and as we go long I think we have got, we will also be having restoring back some of the variants for MAGGI, if necessary even want to expand some of those offerings. So yes, it is going to be a journey back up. As a company, I can assure you that MAGGI is a key brand in our portfolio so, there is no question of relenting on it. I do not start the journey by saying that I will be dropping dead half year in the journey. I start the journey with full belief that I will be able to make up for whatever has been the loss time. The question is it is going to be 12 months, 18 months, 24 months, right? And that I am afraid, I will not be able to crystal ball for today and tell you which I think, even if I have to you would not find me credible because as we get into journey we will have to see what is the extent of barriers or of impediments that we come across. Coming to competition, I think, competition plays in my mind and I have said this publicly as well, plays my mind in a roll in terms of expanding the category. So it is actually good for noodles if the players are there because it makes a better offerings and two, it helps me to differentiate myself. Because then you know what MAGGI is? And what others are? So I will look at it in that sense as probably it continue but yes it is going to be a journey that is, not that it is not achievable but it is a journey that is going to be rigorous in terms of challenging us as you go forward.

Irani – Jupiter Asset Management: This is Irani from Jupiter Asset Management. Mr. Narayanan, that was very helpful presentation that you did, it is very honest the ten battles that you said that must be one in the expatiation that we have. Is there any acknowledgment that some of these battles were probably being lost or indeed you were not even in the battle field? Secondly, how long before you know you are on the right path strategically and we believe you would have promised us investors that rather than the analyst come on to another question that you will inform us when it changes. The third thing question, I had you expect greater engagement we have actually no engagement as investors. You know the company has historically has been engaging with analysts who is through essentially middle man there has been no engagement with investors. As investors to be looked to you and expect greater engagement, I have some question on number but I think my colleagues here would probably have them so I will skip that? Thank you.

Suresh Narayanan- Nestlé India: Let me be very honest with you, I think in high inside it is very easy for us for any leader to prognosticate and to make the statement that what was done was either not right or nor fully right or not entirely right. I would really not cast such aspersions and I am being very honest about it for a couple of reasons number one is I think companies involve with strategies over a period of time so, what could be the continue of a strategy a few years ago and what circumstances stair us today in the face is likely to be different? In the whole market place in which we are in the fears competition that we face there are couple of hits and there are couple of basis. Now with the benefit of high inside, it is easy to flog a horse and say look this was a miss and this should not have been a miss or this was a hit but it was a limited hit. So honestly, on that subject I would really not like to dwell further into comment because I will be a) for you

to be able to talk to me tomorrow, you would want a person who is credible, who is honest, who is sincere, not a guy who is rubbished everything that has been done in the past and now he says I am the superman and I would going to come and decide so I would really if you do not mind, leave that as a perspective behind. Regarding more engagement I mean I think this is certainly a subject that I would discuss the team certainly with Shobinder who is trusted CFO for the organization to see how we can make the engagements more fruitful and may be more frequent. Do not hold me to it and do not say that look he has said that he is going to meet me tomorrow morning but the fact of the matter is that if we believe mutually that greater engagement is important for us I think you have in a person, who is not going to be averse to it. I am not exactly a CEO, who likes to sit in a closet and not talk to you. But it should be something meaningful, of the principles of the engagement that we have said and as in when we go along what I would like to assure you if there are some really big changes that the organization is going through I will be more than happy to share it. Because ultimately, I think you know if I have a coterie of people who are convinced about the journey you would be a lot more with me as a person to back and support the organization that if I were to spring surprises on you that your opinion are completely bizarre or completely not in synchrony what you thought the company was.

Irani-Jupiter Asset Management: Just a small point ... impact that being less people to invest in like that. You have supported the company ... I think that is something... which you as CEO should understand. Shareholders did suffer.

Shobinder Duggal- Nestlé India: Yes, I think let me clarify what I was trying to tell you I was not alluding to the share price. I was talking about how the cake was split amongst the various stakeholders in terms of the size of the business. Of course, yes, if I try to do a net present value of that and if I take future growths are not going to come or it will not be 72% market share but only 24% it will be 104% that is all speculation. I said that many people thought that the cake was being split one way or other but when you look at those things then you realize that and I think I was trying to allude to something else. That some elements who thought that pain was being brought to business or the organization or to the company actually had pain in their areas as well. Whether they understood that or not that is another story. So I was trying to bring that point, but I fully agree with you that the way the shareholders have been with us they have only been words of encouragement of support, no shareholder came back and said I want to sell my share or something like that, they all held on with shares very well and the reaction to the share price when some of the High Court decision came was also a clear reflection of what confidence the investors had and I think then the investors do believe the Nestlé model what I see that is a long term story here.

Irani-Jupiter Asset Management: You need to be engaging more

Shobinder Duggal-Nestlé India: I think Suresh has commented on that so I will...

Irani-Jupiter Asset Management: I know you have these Analyst Meets. It will be helpful to see the management team at more conference or at least at some conferences so that the investors can at least have a direct dialogue with you. Thank you.

Suresh Narayanan-Nestlé India: Sure, let me, just, I know supplement the point that **Shobinder** made, I think he has clarified what the chart might. But to me my style of working has always been on partnerships, and for me shareholders are not just people who hold the script of the company they in a sense also are either beneficiaries or they are people who stand by the company and I believe that is an acknowledgement I will humbly give in a few months in my job. That honestly I think the shareholding community has looked at Nestlé with a different set of eyes. Then some of the other stakeholders have and they I do not want to go into who looked at in which way but had looked at it differently. And I think shareholders have seen the intrinsic value of the organization, the portfolio are the way in which it works the kind of journey that it has been on and yes we can our flaws and we can have our trips along the way but I think we remain grateful to the shareholders for their support that you provided so thank you for it.

Nillai Shah-Morgan Stanley: Hi, this is Nillai from Morgan Stanley. Just one quick question if you just leave the MAGGI

Suresh Narayanan-Nestlé India: Do you mind, can you please stand so that I can see your face.

Nillai Shah- Morgan Stanley: So If I can leave the MAGGI issue aside for a minute and hence the last quarter performance too. But in last three years in some of important categories like in for infant nutrition et cetera et cetera, you have seen a very tipped growth and even your predecessors kind of acknowledge it for chocolates for coffee for infant nutrition and they spoke lot about making a bigger pie et cetera, et cetera in different ways talking about it. But somehow things have not really worked out. It is all good to put it down to a weak macro environment, a weak consumption environment but you really are in the market with some of these category and your slide show how big amortization you are. So can you tell us exactly what has gone wrong? And precisely what are you attempting to do set things right in some of your core categories? Thanks.

Suresh Narayanan-Nestlé India: Well let me put it this way. Again exactly what has gone wrong I think is probably an analysis that would not be complete in terms of the perspective that had been taken at the point when those decisions were made. So to me to be get back and say this is way this particular initiative went wrong or this is why this particular initiative went right is going to be a little bit crystal ball gazing in to the minds of the people who are making those decisions. If you permit me that is not an entirely useful conversation we have at this stage. Let me articulate for you what I think we need to do and I think that is going to be an important part of we do. As I said, for me the clear priorities are number one is to fix parts of the business. Yes, the businesses have had some impact, the impact in this year as Shobinder rightly said is very difficult for us to quantify how much of this is because of selling's of category or offering how much of it is because of a Nestlé and MAGGI impact. So that is the first statement and it is very difficult to sort of take one from the other but the strategy would be really to be fix some of the brands and to fix some of the offerings especially I mentioned chocolate and confectionary and also I believe that this will apply in the coffee and the beverages category as well to look at fixing that. The second element is really in terms of identifying the big ticket opportunities that we have with our existing brands and they are brands like MAGGI, brands like EVERYDAY, brands like NESTLÉ MUNCH, our some of the brands in nutrition where there are clearly plans to also

come out with relevant renovation, innovation are clearly on the cards. So there this would be really putting these initiatives together and during the course of 2016 launching them or introducing them as we go along. The third part is very clearly looking at new categories now obviously now there are some categories which become more salient and I have the criteria very clearly of what is it that is in my mind? Size of the prize, sustainable growth and sustainable profitability are the key criteria's that we are able to do and above all in all this I think the one different, the one core underlying message is launch where there is differentiation and that is the clear message that I would like to give you. It does not mean that the existing brands where there is a commodity payer is going to certainly walk away from it, my philosophy is very clear, the philosophy is, if I have to exit on something I have to introduce something. So I have to add value to subtract destruction, not destroy first and then think of adding value because I think that strategy seldom leads to sustainable growth. So this is what I would be really be looking at as putting it forward for the future and I think I will leave it to your judgment since you have been in this business long enough to take a call on what was it that you think went right in the past or what was it that you think did not go right in the past if this is the way of thinking that the organization has.

Vivek Maheshwari-CLSA: Hi, this is Vivek from CLSA. My first question is, your number one priority out of the 10 point agenda was essentially on the growth, over the last few years we have seen you faltering on volume growth, what is in your mind important balance between volume and value growth??

Suresh Narayanan-Nestlé India: Look, I am old school salesmen and the old school salesmen has always been taught that what you sell are cases and packets, you do not sell rupees. So my grounding has been on volume growth, I am a great believer in volume growth, obviously volume growth, means consumption growth means penetration growth, means distribution growth, means various growths that are linked directly to volume. I would be privileging volume growth, to me the game is that unless you get volume and market shares you do not get sustainable growth models, that is the way at least these markets work, you can skirt the advantage of value growth for a time but unless you start getting in volume growth you are not going to be able to sustain that over a longer period of time. So I would really be privileging it and that is one of the discussion points I have with my team to start getting the orientations between, got that it is not there, but between value and volume and privileging some of the volume growth initiatives. But I also want to add to you that this is where the element of realism in terms of timelines comes in, volume growth takes a bit of time, volume growth does not happen, it does not switch on to more volume growth, it does not mean running a sharp promotion and getting a temporary sale, volume growth means that the consumer takes you day in and day out and ensures that you become part of the repertoire of consumption in the home or in the out of home space, whichever space you are talking about. So these things take a bit of time but I believe that the sustainable growth models for the organization will come in front.

Vivek Maheshwari-CLSA: Very good to know that, two more questions. Second, I know no calamity can be compared with each other, no two calamities are similar but if I look at Coke and Cadbury experience, I mean the moment those crises happened they took celebrities like Amitabh Bachhan and Amir Khan,

whereas you have taken mothers to kind of promote your brand, is there any specific reason you are averse to brand ambassadors as compared to just mothers?

Suresh Narayanan-Nestlé India: I think the circumstances of what happened to Coke, Pepsi and what happened to Cadbury is probably also different. What was it that is being questioned here was a question of food safety. Now if I have to answer food safety than I have to do two things, number one, I have to show the world, even if I know myself, show the world that I am absolutely safe, that is what we have been talking about. And for a brand that is as big and arguably as ubiquitous as MAGGI we felt that it has now reached a stage when the brand is almost socialized, I mean the fact of the matter is that the consumers are owning this brand, it is not a celebrity or it is not a company in that sense, the relationship is far beyond just the company decided to do something. And here the conscious decision we took was that for a mother who is having a seed of doubt in her head that maybe MAGGI was not safe enough, who is a better representative of that to her, would it be another mother who talks about it or is going to be some celebrity who you know has probably paid a quit a lot of money to come and talk about this, who is actually doing the talking. We chose the former that let the consumer talk in consumer language, in very simple language the message of safety which is what Nestlé and which is what MAGGI is all about.

Vivek Maheshwari-CLSA: And one last question, and pardon me for asking this question, but over the years I have used the term margin obsession when it comes to your business you have been almost sitting record high margins, you have mentioned about volume growth but in all the product introduction, renovation you have maintained margins as an important bit. Do you think, one, are you earning in India at the moment because your margins have been moving up? Second, is there a need to relook at the strategy because you may want to introduce some more products, bake a bigger cake and then decide on margins because if top-line is coming I think the marketing lessen says that the bottom-line will come perhaps with a lag because you have to play the role of market development, so how do you think about this issue? Thank you very much.

Suresh Narayanan-Nestlé India: Good question, in my mind there is no uniform model that can be applied across the company, I would rather look at it from a business to business perspective. There are some businesses which privilege themselves to much better margin contributions where the opportunities for growth are also good, but they are not as sharp as certain other categories where the growth opportunities are sharp but the margin contributions therefore are relatively more modest. So the model that I am sort of thinking together for the company is what I would call a horses for courses model which is which business can fit with a high margin, relatively low growth but a sustainable business model versus some businesses which will be lower margin, relatively lower margin but where I can get much higher volume growth and much better penetration and market shares, I think this is the grid that we are working on. So I would not like to tell you that this is going to be that margin is going to be privileged over growth or growth is going to be privileged over margin because ultimately what you are looking on as shareholders and what we look at as a company is sustainable growth of the organization both top-line and bottom-line and one is not going to come by focusing just on uni-dimensional aspect. So this is my thinking in terms of looking at it from a business perspective rather than painting a picture as far as the company is concerned.

Arnab-Credit Suisse: Hi, this is Arnab from Credit Suisse. I had a couple of questions, one is, you clearly have a task of one, getting MAGGI back, second, you are talking about categories, innovation, so in your conversation with the parent company are they willing to give you that levy of 12, 24 months where profits might be low as you go on this journey? Is that the comfort that you get from them that they are willing to take this investment phase?

Suresh Narayanan-Nestlé India: Sure. Well, good question, let me just link it up to the entire MAGGI crises. I think sometimes there is a belief that because we are maybe 1% to 2% of the global turnover so therefore India is not a big deal for Nestlé worldwide. Let me put it on its head, in fact for Nestlé India is extremely important, extremely important not only from the point of view of whatever we generate which is one part of it but more important, from the opportunities and from the leveraging that we could do, now the question is have we done all of this in the past is for you to judge, but that we could do in terms of what we can do for the future. The mandate that I have is of sustainable profitable growth, the mandate that I have is not get all the growth and get the profits to pretty abysmal level, that is clearly not the mandate and that should not be the mandate that I will even accept as a business person.

Regarding time, I think to be fair to the global Nestlé organization, Nestlé has always privileged a long-term, we have not been a short-term short-term company. So if there is a degree of confidence in the local management and the team in terms of A, how we have handled this crises, and B, in terms of having some clear plans for the next 12 to 18 months and then 18 to 24 months, I have enough confidence that the global management of Nestlé will give me the mandate to pursue it, it is only when it is going to be a little bit hazy that there can be an issue. But what I would really like to make clear is that decisions that are taken in terms of portfolio, in terms of strategies etc are primarily taken by the Board in India, so global management is like blessing you for the journey ahead, the karta-dharta is the Indian Board, so the Indian Board and the people who sit on the Indian Board are going to be very key people for me to be able to navigate the plans that we have for the future on a 12 to 18 months basis, 18 to 24 months basis. And I think this is where what I have said in all transparency is the fact that some of the fixes can happen relatively soon, some of the more longer term things are going to take time. So I would like to calibrate expectations that when coming out of a crises of the kind that you have and if you need to also do a couple of other fixes in your business do not expect that that overnight it is suddenly going to transform itself, what I offer you is a credible journey, what I offer you is a trust worthy journey, what I offer you is a Nestlé journey of sustainable, profitable growth.

Arnab- Credit Suisse: And just one more question, so I think when you were here in 2005 as head of sales that was also a time when Nestlé used to speak a lot about the PPP strategy, making products affordable, so that term has not been used much in the last few years. If you could throw your thoughts on what we think of PPP and in the context of what you are trying to do and where does it fit in. Thank you.

Suresh Narayanan-Nestlé India: Look, I think one of the reasons why it has not been bandied around as much is that PPP somehow gives the impression in the Indian market, it is not true when I was working in Egypt or when I was in Thailand or even in the Philippines. PPP is not seen to be the kind of

deprived sections of the society access models that are being worked on, it is more products which are lower priced but which are offering good value to the consumer. As I said in my presentation, the focus of the Nestlé organization is on the middle class, the aspiring, the people who are able to afford what we can give, but they would like to have it in smaller bit sizes or in smaller sizes for ease of consumption or for the size of the pocket. The India of 2005 and the India of 2015 shows quite clearly that there are as many opportunities for what we call PPP or well-priced products, I would put it rather than popularly priced, well priced products and we also have opportunities for the premiumization of categories. I would like to have a strategy that is dual, that is not just uni-dimensional because a uni-dimensional strategy always suffers from one key characteristic is that over a period of time if there is not a clear differentiation in your brands you get beaten down by cost competitiveness, and of course able to work at 200 basis points lower margin because that is the return he is happy to generate for his shareholders or for his business versus somebody like Nestlé which has got vastly more stakeholders involved. So I would see this as more of a conscious step that the company is taking to get away from the thinking that everything has to be in a particular dimension of price value, you can have well price products, you can have slightly higher priced products and you can have the premium products, I look at it more in terms of that direction.

Percy Panthaki-IIFL:

Hi sir, this is Percy Panthaki from IIFL. Sir, my question is on competition, basically if you look at from the last three or five year perspective, competition in your categories has changed structurally so versus let's say four years back in dairy now there are many new players, even the old players like Amul are very aggressive on expansion into value added products, on chocolates if you see Cadbury has done a very good job and has actually steered the category growth away from wafers into some other categories where we are not present, in noodles there have been couple of players who come up, who have not been there four or five years back, even coffee HUL has become more aggressive than what it was. So in this structural change of competition if I see at least as per the BSE, NSE filings your P&L or your Annual Report, your A&P has remained more or less constant at 4.5%. So my question is, how do you look at this structural change in competition and how do you want to deal with it, will it require you to invest significantly more than what you have been doing till now and apart from just financial or accounting change in the A&P line what else do you need to do as an organization to bring yourself up to the new reality of enhanced competition?

Suresh Narayanan-Nestlé India:

Thank you for your question. I think taking the A&P angle, again, just as much as I define the innovation model for the company or the model of margin versus growth management of the company, I also put the A&P into the same segment that is by business rather than just giving an overall number. And for me here there are really two axis that I look at businesses, what is the ability to win and what is the size of the price. So if I see that there are categories where there is an ability to win, I will put my money there. So there are some propositions we believe as a company there is an ability to win and where we know that there is a significant size of the price, those categories you will see an escalation of the A&P. Why? Because there I can establish consumer savings, and I told you my underlying principle of managing renovation, innovation is sell what differentiates, if there is no differentiation I think as an organization I do not have sustainable competitive advantage. In the old days when I started my life in the

commercial areas or even later, access and distribution models were considered to be big barriers of entry, today that is gone, anybody can distribute whatever he wants to, wherever he wants to, however he wants to. So those kind of artificial barriers now which were real barriers then no longer exist. So I would rather look at it from a business to business perspective and I can assure you that wherever we see an ability to win and where we see a size of the price being relatively strong, we will put in the moneys behind it. So that is definitely something that we will do and where we believe that in some propositions that the ability to win for Nestlé is relatively low and where even the size of the price maybe a little bit big but we will start doing a process of not making it zero but of trying to get a little bit less of that money going in that direction. So I would privilege categories where ability to win is high, size of the price is high, I would privilege where our current competencies are going to be significant and where we can look at those current competencies to leverage what we are talking about. I think these are the two dimensions that will get the A&P figure for the company. Now in overall terms, for me it is very-very clear, my mind is clear on the fact that we are talking of sustainable profitable growth which means I have to get a top-line to get a bottom-line, I cannot be just getting you the bottom-line without getting you the top-line, so for which I will need to invest, for which you will find in some categories my A&P will be going up but there I will need to increase it because to fight the battle I need the bullets, I cannot be just going in and say I am putting a launch and not doing much about it. This therefore means that I think in terms of behavior and attitudes I put the theme as fast focused and flexible, the market is changing, our ability to respond to it in either in terms of consumer insight, in terms of prototyping, in terms of commercialization, in terms of rollout it has to be extremely quick. We have taken in a perverse manner the lessen in the MAGGI re-launch, the timelines that have been followed by people in the organization has been simply amazing, packaging material that take eight weeks has come in eight days, point of sale material that takes 45 days has come in 15 days. So it has happened, people have made it happen, now I will try and institutionalize it to see that we are able to do this on a more sustainable basis. Now obviously I know that in an organization there is one leader and there is a team and there is an extended organization, these things take some time to percolate and take some time to sense within an organization but I think once there is a sense of purpose, a clear strategy and direction that gets defined, I am reasonably confident that people get the point and they go after it.

Manoj Menon-Deutsche Bank: Hi Suresh, this is Manoj Menon from Deutsche Bank. One actually quite a straight forward answer I was expecting on the volume price bit, you alluded to it earlier to Vivek's question so let me ask you slightly differently. Considering that Nestlé largely has got a premium portfolio in India, would you be looking at playing the price elasticity game? So that is point number one. Point number two, is there any changes to the internal management incentive structure, I am not talking about the Board Members, for you to actually drive innovation, if you would allude to that what are they let's say compensated today which actually gets the highest weightage, qualitatively speaking. Thirdly, while you spoke about the marketing bit, are there any changes which Nestlé needs to do on the sales system, it could be capability, it could be culture, it could be anything? So those are the three questions.

Suresh Narayanan-Nestlé India: Look, let me take the first question on volume. It is clear in my mind that volume is an important dimension of future growth for this company but volume per say needs to be

calibrated as I mentioned to the kind of business in which we are in. So there are some businesses where volume growth is, opportunities are let's say quite significant, by quite significant I mean anything more than 5%, 6%, 7%, could be a significant volume growth that I can get off the base that I am talking about, in some areas it will be much less. Now where the volume growth is going to be less, I am going to therefore say what is going to sustain the growth, to sustain the growth for this would be in terms of margin deliveries and there are some where we believe that the volume growth is likely to be more accelerating than we say very good, we will look at slightly lower margins, play the elasticity game and try and pick up additional market shares and grow accordingly. So I think that is to answer to your question, it is the kind of play that is there in my mind but it is very clear from me that look, longer term in any category in which you are in I have not heard of a single example where you have 10, 15, 20 years of zero volume growth and purely skirting on value growth unless it something which is very-very specific, now that is it, nobody else can produce it and that is about the only thing that you can do. So I think this is the play that we will do. Coming to your question on what other changes would there be in the organization, I have talked about the commercial structure, but I believe that for example having had the privilege of heading the sales organization also for a while in this company I can tell you that we will bring in winds of change, not so much in terms of making huge structural changes, because let's get one thing clear, the sustainability of the consumer goods industry lies not in the execution at the point in sale that is an important element of what is being done, but on the sharpness of the proposition, when the sustainability of the proposition that you seek to offer. What an sales organization can do is to take the stocks and put it on the shelf, but the damn thing does not move that is not very much that the sale organization can do, they can only try and discount it and sell it and do whatever else. But having said that, I think there are opportunities in the sales organization for improving, we talked about metropolitan clusters, the fact that the metropolitan clusters are happening in this country means that your distribution models have been changed which means that in terms of the distribution points, the number of distributors, the frequencies, the infrastructure, the incentives all that also has to undergo change, so that will be one piece that will be relooked at in order to get a greater geographic focus. The other bit which will clearly be is the whole e-commerce space, that is an area where I think we are relatively new at this journey, I am quite excited by it, I mean you guys must have seen MAGGI on Snapdeal and the flash sale, it is the first of it's kind, we took that bold step, we said fine we will do it, a couple of youngsters in the company said it is a great idea, we said okay it is a great idea let's do it. So we did it, okay, it has worked out well, it has created more hype for the brand than what any amount of advertising we could have done, could have showed up in two, three days of launch. So this gives us the confidence that we will be able to take that forward as well.

Manoj Menon-Deutsche Bank: Sure. Sir the second question was actually, is there an incentive structure?

Suresh Narayanan-Nestlé India: Look, as far as incentive structures are concerned, it is very clear that the responsibility for innovation, renovation in the organization lies with the role that is being played by the general managers of the business. So very clearly wherever innovation is going to be a key dimension of growth and sustainable profitable growth, there the incentive structures for those people will clearly be waited in favor of that. So it is always clear that there are three things that always determine good businesses, having the right structure, having the right strategies and the right

people and of course having the right incentive. So if you do not have the right incentives, if I talk about innovation, renovation and nobody in this company starting from me gets a single rupee on innovation you will get only that much of innovation. So we will do it but it does not mean suddenly, I have never believed in this blunderbuss approach of saying everything has to be dramatically kind of changed the next day. To me it is relevant, gradual, in some cases incremental but entire decisive that gets results because if you try and change everything every time and say this is the new improved version of Nestlé that you will see, you yourself will not have credibility for the organization going forward, you will say what the hell is this company doing. So that is the bottom-line.

Manoj Menon- deutsche bank: Sorry, one last question. The new MAGGI which is re-launched now, is there any change to it, whether it's formulation, pricing, ingredients, any change whatsoever?

Suresh Narayanan-Nestlé India: Nothing.

Manoj Menon-Deutsche Bank: Absolutely nothing?

Suresh Narayanan-Nestlé India: Nothing, it is the same great taste, and again that is putting marketing philosophy on its head, because here is an opportunity for new product launch, let us go and change this, let us go and change the bells and whistles, we will make a different packaging. The bottom-line we said was, what does the consumer want, he or she says I want just the same great taste of MAGGI, just give that that bloody MAGGI to me, do not keep fiddling with it, we said fine take it. Packaging, exactly the same, we put in a few more words, that's it. Pricing, exactly the same, exactly the same, not a single rupee has been changed because we said this is what the consumer happened, because again you can have temptations, you have got 470 crores down in the books, can we increase the price and do something, no, that is not the way Nestlé thinks. Our thinking is very clear, give the consumer a differentiated product at the right price and make that work.

Trilok-Birla Sunlife Insurance: Hi sir, this is Trilok from Birla Sun Life Insurance. In the battles to be won that you mentioned, one of the element you mentioned about revamping, so I would assume there are certain things that you must have thought about in terms of compliance, speed, outsourcing, third party manufacturing. So all these elements do you think very different cost structure compared to or any disproportionate increase in cost structure for you guys going ahead? And if that is so, so how you are going to manage it in terms of pricing with respect to volume, you already had some questions regarding that.

Suresh Narayanan-Nestlé India: Look, one of the philosophies that we have in the Nestlé organization is called Nestlé continuous improvement, Nestlé continuous excellence as we call it and also a philosophy of lean which is basically to try and see that how can we try and get the most efficient structure, strategies and systems to make business decisions happen. So as far as I am concerned, I think the emphasis of some of the structural changes that have been done and some of the emphasis points that we have put on things like compliance or things like better sensing of the environment are largely headcount neutral, largely headcount neutral because the philosophy that I have always believed is that not everyone is been fully stretched to the 100% accent all the time, there

is still scope for rejigging the organization to take flap from the waste and put it in the hand as muscle. So if you can do that, I believe an organization can do a greater job. So I am not and I think none of my team members here are particularly averse to trying to run faster with the same set of shoes. So we are really looking at it, but where we will need to invest, I am the first one to be pragmatic to say that rather invest it there and get the benefits of it, like for example sensing the environment it would not make sense for me to be a leader of this company, if I say look that is not an important point, of course it is important. So if that means we need to put some people behind it, we will put some people behind it, but where we do not need so many people we can decide to redeploy them or to rejig the organization and that is part of the exercise that we will do.

Himanshu Manglik-Nestlé India: I think most questions have been done, is there any other question that you would like to ask, otherwise may I request you for tea and coffee? Let's break from here.

Suresh Narayanan-Nestlé India: Okay, if nothing else, thank you gentlemen, thank you ladies for being here and for giving us the opportunity and looking forward to seeing you all in the future as well. Thank you very much.

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