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Speakers:

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

Slide: Title slide

Good morning everyone.

Slide: Disclaimer

Slide: Our strengths

I will start my presentation with our highlights and our strengths. As you know we are the largest food company in the world. We are present in 190 countries. We actually have industrial units in 85 of them.

We are operating in the fastest growing Food and Beverage categories and we have leading positions in these categories; 85% of our sales we are in number 1 or number 2 position.

Iconic brands both globally, we have already mentioned *Nescafé, Nespresso, S. Pellegrino*, *Perrier, KitKat* and many other brands, but we have local brands as well, in the U.S. for example we have *Poland Spring*, we have *Stouffer's, Lean Cuisine, Coffee-mate* and many other brands. We have 34 billionaire brands actually, billionaire brands which have a value of a billion dollars of sales at a retail level.

We are leading the industry as well in terms of R&D spending. We spend about CHF 1.7bn a year. We are really in the business of innovation, we renew about a third of our products every year.

We have a lot of talented managers in our company who are highly engaged in the company and very close to consumers as well.

Slide: Our long-term value creation model

Our strategy and value creation model is really geared for the long term while it has been set up as well with short term intensity. It is based on growth to start with. Growth which is coming from high growth categories that I described earlier. It is based on e-commerce, which is based on our strong footprint in emerging markets which I will cover later on. It is very much about portfolio management as well and we aim at being at the higher end of the industry, in terms of growth.

Improving margin is really at the heart of what we do as well. Much of it has to do with reducing our structural costs and leveraging on growth. I think that this combination of reducing our costs and leveraging on growth is very important. We have a significant saving program in progress and I will cover that a little bit later.

Our strategy is to also to allocate capital very prudently. We have a very clear set of priorities for capital allocation starting with our business in R&D, in marketing, in CapEx. Our second order of priority is our dividend which has been increasing in absolute value in Swiss francs, which is currency which re-values, over the last 25 years. Then the third priority is M&A and the fourth one is share buyback and I will give more details there as well.

Slide: Strong 2018 results

I am not going to cover the 2018 results. You saw them. We ticked all the boxes. Organic growth increased by 60 basis points. Our margin, operating margin, that increased by 50 basis points, underlying EPS, even if we exclude exceptional items, doubled. Return on invested capital at 12.1% has been increasing for the last four years. We have been very disciplined as well in M&A. Our cash flow hit a record high at CHF10.8bn last year. We returned almost CHF 14bn to our shareholders, an increase in 2018 over 2017.

Slide: Balanced and diversified portfolio

We have a very balanced portfolio from a geographical point of view. I won't go through the details. Just, as you know, AMS has been delivering the highest contribution to the growth and to the improvement of our growth last year but Steve will cover it in his presentation.

EMENA has been very resilient in the context of deflation, in Western Europe mainly, and they have really been able to grow significantly through premiumization.

AOA remained with the highest growth level that we enjoy among the three regions.

Slide: Strong emerging market footprint delivering profitable growth

We have a good footprint in emerging markets. It accounts for 42% of our sales. We are very happy with emerging markets, they grew last year three times faster than the developed markets. Not only do they contribute in terms of growth but they contribute in terms of margin as well given that we have a higher margin in the developing markets than in the developed markets.

Slide: Growing in all product categories

Our portfolio is very well structured. We are not overly dependent on any single category. The largest category that we have is Powdered and Liquid beverages, which is mainly made of Coffee, which is accounts for less than one fourth of our portfolio.

You can see that all our categories as well have been increasing, even, for example, Confectionery which used to be lagging behind. Even if we exclude the U.S. part which we disposed of last year, it was at 3%. We still need to fix Water where we had disappointing results last year.

Slide: Revived growth in key markets

We were very pleased last year in 2018, that we revived growth in the U.S. Steve will cover it. It has happened in some categories but I will let Steve talk about it. China has been accelerating significantly. Three times faster growth last year. We were very happy with that because we knew that if we had stayed at the level that we were in 2017 it would have been difficult to reach our mid-single digit agenda for 2020. Now we have a good base and we can certainly progress further, especially in the U.S.

Slide: Strong growth in key categories and channels

We were very pleased as well with the growth that we had in Infant Nutrition moving from 0.9% to 3.7%. This came as a consequence of innovation, I will detail what we have for example with HMOs (Human Milk Oligosaccharides) in a few minutes which is great. This comes as well mainly from China where we saw significant acceleration. Some of this acceleration of the growth for Infant Nutrition is also the consequence of the new organisation that we have adopted by de-centralizing more the management at Zone or market level.

We are pleased as well with the development in e-commerce. We grew by 18% last year reaching 7.4% of sales. We were at less than 3% five or six years ago. That's a significant progress, even if we exclude *Nespresso* last year we grew by 25%. Our market share in e-commerce is on average actually better than off-line which is very good as well.

Slide: Investing selectively in high-growth categories

[No commentary]

Slide: Growth supported by meaningful innovations

We are really in the business of innovation. I wanted to share with you some examples starting with *NAN HMO*. HMO stands for Human Milk Oligosaccharides which makes this formula closer to breast milk. It is quite amazing this HMO product, we launched them a little bit more than a year ago and in the first year of trading we reached CHF 600 m of sales in one year. Most of it cannibalized already what we had but we brought more relevance to consumer and this is a premium product for sure. What happens as well is that we want to accelerate the roll-out of this innovation. It is quite amazing to see that we have been able to launch this product in 40 markets in the first year.

In terms of innovation I could mention the new *Vertuo* system that we have. We launched it in 2014, last year it was already at CHF 400m of sales. It was growing at 60% and it was already established in 14 different markets.

I could mention *Coffee-mate* as well, and the *Natural Bliss* but I think Steve will talk about it so I will not elaborate. I could have added there the new line that we are launching with *Starbucks*. As you know we have just announced the launch of 24 SKUs which happened just less than six months after we took over the business because we closed that transaction at the end of August.

Slide: Developing our portfolio

Talking about portfolio management we have been very active. You know we closed CHF14bn of transaction value last year, both in and out. Closing the U.S. Confectionery disposal, *Gerber Life Insurance* disposal, acquiring, *Starbucks* rights, *Tails.com*, *Terrafertil*, *Blue Bottle* and so forth. We put other assets for strategic review, mainly Nestlé Skin Health and the *Herta* charcuterie, which is cold cuts, that we just announced last week. So we have been very active there.

Slide: Saving programs on track

Moving now into our cost management and cost discipline. We started a program a little bit more than two years ago where we said we would expect to save about CHF 1.8bn of cost and take them away from our P&L by 2020. We have, since then, revisited the program and increased the ambition to between CHF 2 and 2.5bn. Already two years into the four year program we have delivered CHF1.2bn of savings which is roughly 50% so we are absolutely on track. With a good achievement on procurement, we expected that to happen because we had started this program early. G&A we have delivered 50% which is okay and we knew that manufacturing would take a little bit more time given that this is a little bit more complex.

Slide: Key structural savings projects are delivering results

Just to give you a little bit more colour on some of the programs that we have completed. In manufacturing we have fully completed the review of our manufacturing footprint. If we look at the number of plants that we have closed or sold 24 factories over the last two years. I exclude from that the businesses that we have disposed of or that we bought like U.S. Confectionery for example. This means that we have accelerated the re-structuring, we are closing about one plant a month.

If I look at what we have achieved as well in fixed factory overheads, they declined by a little bit more than 2% last year which is quite interesting since we grew by 3% it means that we achieved about 5% productivity increase in one year. We did about the same in 2017 and we have the ambition to do the same over time. So when start accumulating that over a couple of years we make very good progress.

In procurement we had an ambition to buy what we call 'above market', not any more at single market, about 60% of what we buy, given that we get better terms as consequence. We have already achieved 55% after two years versus an objective of 60% which means that maybe we could even go further than that. We have reduced our suppliers by 10%, we had about 150,000 suppliers, we have now I think 132,000. We will reduce even further so we have less people and we buy more from them with better terms for us.

We have reduced significantly the amount of print and point of sale agencies. We have already reduced them by 37% in two years. We expect by 2020 to even to reduce them, over 2016, by 75%. So it is a dramatic decrease, obviously we extract a lot of value through that.

If I look at G&A some examples, we reduced our head office cost, this is not just about asking the markets to reduce their costs, we have reduced our head office cost by 16% in two years in Swiss francs. When you look at it against our sales growth which has been around 6%, this means we have reached productivity increases of about 25% in two years.

We consolidated our HQ's in many markets starting with the U.S., in France, in Brazil and in many other markets as well, and at the Head office as well we are consolidating massively the number of buildings we work from.

Shared services we had the ambition to reach about 50% of our services being shared above market by 2020. We were at 17% in 2016 and we have already done half of it, which is in line with our expectations, reaching 35%.

We have exited totally asset management for pension which will save about CHF120m a year so quite significant savings.

These are just a couple of examples, I could go for example in R&D as well. In R&D we do expect to consolidate the number of sites we are operating from, from 42 to 32 by 2020 as well.

So all the departments are really deeply involved in it.

Slide: Restructuring investment needed to support efficiency programs

To get there we need to spend on restructuring costs. This year it should be around CHF 700m. We do expect that we will continue probably around that level in the next couple of years because we are still making progress in identifying new avenues.

Slide: On track to achieve our 2020 targets

With all of these results we are very confident about reaching our target for 2020. Both on the top line of mid-single digit, 4 - 6 let's say, and underlying trading operating profit to increase our margin by between 150 – 250 basis points in 2020 over 2016. So we are confident in being able to do it.

Slide: A long-term approach delivers strong total shareholder returns

Finally we value shareholder return. We have returned significant amounts to our shareholders. Over the last ten years we have returned CHF118bn which is quite a significant amount, made of CHF 69bn of dividends and CHF 49bn of share buybacks. As you know because of the strong cash flow generation that we had last year we have decided to accelerate the program and reduce it by six months and complete it by the end of 2019.

You can see that as well in terms of TSR (Total Shareholder Returns) we have been doing very well against the STOXX Food and Beverage index, all of which is comparable. It is made in EUR we have exceeded the index in all dimensions, one year, three years, five years and ten years. Even if I was looking at it yesterday night we would have added another five percent against the index since the beginning of the year.

Slide: Key takeaways

So to conclude my presentation this is very much about improving our growth, accelerating our margin as well, which we have done 100 basis points already over the last two years. Being very active in portfolio management, we did a lot, more to come as well.
We do expect to be on track for our 2020 target, both on the top and bottom line and we focus very much on delivering strong returns to our shareholder as well.

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Thank you very much and I leave the floor to Steve for the US

Steven Presley, Chairman and Chief Executive Officer, Nestlé USA

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Thanks François. Last presentation of the week so we will go quickly and then we will move to the Q&A.

Slide: Disclaimer

Slide: Revived growth in the USA

Last year for me, I came to CAGNY and I actually announced on the day I presented that I was taking over as the CEO and if you remember, and I am sure that you guys were riveted by what I said last year, you remember I said that we were going to return the U.S. to growth.

A lot of our competitors are talking about that but we actually did it in 2018. So going from roughly flat to 2.6% growth on a $28bn base in this market, and for us from a margin standpoint we have done so much work over the past few years to drive margin expansion in the U.S. and it has paid off. Our margins are roughly accretive to 2020 group targets and so we are in a good place for this. So it is really around accelerating and driving growth.

Slide: Broad-based growth across strategic categories

When you look at it the good news for us is that it is really broad-based in the U.S. All of our big platforms if you look at global platforms; Pet, Coffee, Nutrition and Waters, all achieved strong growth in the U.S. and our portfolio is a little different where we have big, strong, iconic local businesses that also achieve growth. I will talk a little on just a couple of examples.

Coffee-mate, one of our Billion dollar brands, is an incredibly strong brand, leadership position, grew share by over 120 basis points this year on creaming and continues to drive relevance into that brand. Almost double digit growth in that business and really strong performance in creaming.

You know Coffee, François talked a little bit about adding *Starbucks* to the family. We have just got a great suite of brands to compete and really strong, double-digit growth there.

I'll talk a little bit about the challenges on the right, but when you talk about Frozen, half of our Frozen business, our Pizza and *Hot Pockets* business, are performing very well, near mid-single digit growth.

So good strong broad-based growth as we move across. Then we got two challenges that we continue to focus on. So re-positioning our Frozen meals business and this is really on the *Stouffer's* and *Lean Cuisine*, and *Gerber*. Both have had tough year for 2018.

Slide: Fundamental shifts in consumer behavior

So for us as we look at this fundamental shifts in the consumer behaviour; how they eat, how they shop, how we engage with them. It's forcing everyone, including us, to change our traditional CPG model.

Slide: Three priorities to win

The way we approach that is really around these very simple key priorities in the U.S. to win. It is about re-wiring the organisation to focus on driving long-term, sustainable, healthy growth in this business and taking a long-term approach. So everything we are doing right now, we are in a pretty good spot on the margin side, so it is around driving growth in the U.S. Really doing that through creating the capabilities that an organisation needs for the future to actually be able to drive that growth. For us people and culture is a differentiator, if you do talent and culture well it will drive market exceeding performances, so we are very focused on people and culture.

I'll go a little deeper into growth.

Slide: Fueling our hybrid growth model – Reimagine the base business

The way we talk about growth is really our hybrid growth model and it is around three key tenets.

One, reimagining the base business, you can drive growth in these large, iconic brands and I shall show you some examples.

Transforming our portfolio. François talked about it and I will give you some specifics in the U.S.

Then this idea of pursuing new innovation models.

These are all interesting things to say but the reality is that we actually drive specific growth change targets out of each one of these and are really focused on driving this hybrid growth model.

Slide: Fundamentals as a growth driver

If you focus on driving relevance into the base, look this isn't sexy, the four p's aren't sexy but they work. If you deliver the right product, at the right price with the right communication it absolutely drives growth in the market place and we see it on some of our big brands.

Really focus on delivering Consumer Relevance, not only in your small niche brands but in your big power brands. At your coffee break you saw *Coffee-mate*, whether it's oat milk or almond milk or soy-based creamers we want to have the entire offering of those trends. Not only in their own brands but also in our power brands.

We have got to be great in execution, invest smartly and innovate. I will give you some examples of innovation that really worked for us behind some key trends in 2018.

Slide: Naturalization and science-based innovation

This is from our Purina team in St Louis. They have done a great job, really capturing on the naturalization and science based innovation trend for our pet business. If you look natural has been a big trend in pet for a while, we have really done well in the premium space with *Merrick* but what the team there has done is really taken that trend across the spectrum of consumer price points and driven naturalization all the way through the category.

If you move to the other side whether it is our *Bright Mind* products or our *Calming Care* they are really elevating life changing nutrition for your pets. It has been a great differentiator for us; the *Bright Minds* with the cognitive health and the *Calming Care* for anyone who has a very anxious dog or a high anxiety dog this has been a life changer for them.

Slide: Empowering extraordinary health

Then *Garden of Life* was part of the portfolio transformation that François talked about. This really is about empowering extraordinary health. This is a brand that is number one in the health food channel and number one on e-commerce for the supplement business. It is actually larger than Centrum in the U.S. today and continues to perform very, very well. This is just one example of being on trend with innovation with this collagen peptides line which really focus on skin elasticity and hair and nail growth.

So we have just really started to push that really into mainstream distribution and a lot of upside for *Garden of Life*.

Slide: Premiumizing to win in high growth segments

Then Premiumization. It's not a new trend, it's been going on for the last few years, but these are examples and categories where we have captured, it's driven growth for us in the U.S.

I won't go through all of them but if you look at premium still water with our *Acqua Panna* line, that's a $2bn category today, we think it will be a $3bn category by 2021, and we are really well positioned to win in that space. Sparkling continues to be a growth engine in the beverage category and with our regional spring waters and sparkling we are doing quite well there.

Then Ice cream, you know Ice cream has been one of those challenge businesses historically for us and that team has really turned that business around. Mid-single digit growth on Ice cream. Häagen-Dazs is absolutely crushing share right now, almost a full share point up in that premium segment in Ice Cream. It is through really focused consumer relevant innovation, whether it's our *Trio* line with the layers of chocolate, or our cookie bar that's has been specific for clubs. So really good innovation which drives to premium price points that is driving growth.

Slide: Relentlessly renovating legacy brands

This is one example of where it's just around focusing on making the product better and getting the price right and getting the communication right. When we do that we see growth. These businesses combined are near mid-single digit growth. We are actually positive on share on *Hot Pockets* across the last period and a really strong performance in our Pizza and our snacking line which we are expect to continue to push.

Slide: Reinventing a beloved icon

Gerber, you know *Gerber* has been a challenge business. No denying 2018 was a challenge for us. But it is really around reinventing this beloved icon. It is about contemporizing the line. If you look at it I think we start to see some kinds of health if look across the last 45 weeks, share has been stable on our total baby food business and if you look at some of the key sub-segments like puree tub or puree pouches are actually positive in share. So good signs there and it is really driven by contemporizing the line through more natural offering, more organic offering and this fresh offering. We have got a refrigerated baby food test in one of the major retailers right now that is bringing a refrigerated product to the aisle and it is actually doing quite well and we look to expand that as the test rolls out.

Of course Lucas has been a great spokesperson for us all year. We are honoured to be part of an incredible conversation of inclusion in 2018 and Lucas was a big part of that.

Good signs there. Still lots of work to do on *Geber* but some good early signs from the team.

Slide: Elevated consumer experiences

Then *Nespresso*. *Nespresso* has continued to be a growth engine for us in the U.S. This will be our next Billion dollar brand in the U.S. alone and we continue to drive growth in this.

What I look at this is that it is really around just delivering elevated consumer experiences at every single touch point. Be it the on-line experience, the ordering experience, the product experience, the machine. Every single one delivering an excellent experience for the consumer and we are growing very fast in that.

Slide: E-commerce – Setting the direction

E-commerce continues to be one where we are excelling. Traditional, Emerging and Direct-to-Consumer. The models that everyone is focused on and it takes different levers in each one to win. For us we're over developed in the space, today around 9% of our total sales are in e-commerce, on a $28bn business so it is a very large part of our business. A bit of a difference for us is that we actually have a pretty large direct-to-consumer business, over $1bn today in direct-to-consumer in the U.S. So we are pleased with our e-commerce pattern, we are gaining share in that channel and will continue to accelerate the investments. This is where we talk about capabilities, some of those capabilities required to continue to win here in the future are what we are driving.

Slide: Personalization – Tailoring to individual consumer needs

Then personalization, I will talk about this one. Personalization will be the next big key to unlock growth, I think, in lot of our categories. Whether it is building new business models like *Just Right*, which is a specific pet food designed for your pet. You get the bag with your pet's picture on it, specifically designed for their nutrition needs.

Or if it's our *Ask Dotti* programme for new moms, that's twenty four hour assistance for those moms around lactation, feeding, sleeping, any kind of questions they have – available to connect with this generation of new moms in a different way.

We are excited about our program with *TerraCycle* which is really around building a new business model on re-usable packaging. I think you guys saw a lot of this in Davos conference and *Häagen-Dazs* is proud to be a part of that and really kind of leading that in food.

Then for us in terms of *Nespresso* its about owning this relationship with the consumer at such an intimate level and driving personalized communications around that and the team's doing a nice job.

Slide: Fueling our hybrid growth model – Transform our portfolio

So that is just some examples of how we are reimagining the base business and driving growth through that first lever of the hybrid growth model.

The second one is really around transforming our portfolio. François talked about this and we have been quite active, not only globally, but in the U.S.

Slide: Transform our portfolio

For us we have divested about 6% of our portfolio the latest being obviously the *Gerber Life* business and the U.S. confections business. Then we have acquired and added around 12% to the portfolio, the biggest one of those being *Starbucks*. Across all of those acquisitions they're achieving double digit growth and so we are really pleased with the performance of all our acquisitions. Transforming our portfolio is working to change the growth trajectory of this business in the U.S.

Slide: Starbucks Alliance creates a powerhouse

I will just go a little bit deeper into Coffee. You know Coffee has been a global platform for Nestlé for ever. For us in the U.S. we really lacked that power brand to let this be a power platform. *Starbucks* allows to do that. We are the number one U.S. Coffee company now and when you look at our portfolio of brands, between *Starbucks, Nespresso, Nescafé*, *Chameleon* and *Blue Bottle* we are actually growing share across all brands and continue to outperform. *Starbucks*, since the acquisition in December had the highest share period ever on that business and so we are pleased with our portfolio and we think that we have got a great powerhouse of brands to win across any consumer needs state on Coffee.

Slide: Starbucks Alliance unlocks significant opportunities

When you look at it *Starbucks* is such a strong brand. It's everywhere with consumers. That connectivity across the consumer continuum creates opportunities that we can unlock. Whether it's being a leader in channel development and reimagining what the Coffee aisle of the future should look like with our brands or creating incredible out of home experiences with our brands as well. Or taking our existing platforms like *Nespresso* and launching *Starbucks* into those platforms to drive growth. So the alliance really is accelerating growth for us in Coffee, gives us a leading position where we are performing quite well again.

Slide: Fueling our hybrid growth model – Pursue new innovation models

Then the third one is this new innovation model.

Slide: Pursue new innovation models

I won't go too deep into this but we have really focused on building an internal incubation model. It is not about creating a separate company in some cool location like Boulder or Austin like everybody else. It is about creating a mind-set that the way you incubate is the way you have to innovate in this industry. Innovation has to go fast, you have to do it every day and you have to do it in every part of your business and that is what we are trying to build here. We have twenty examples of products we have built and are in market in test. Some of them have failed, that's okay, some of them will work and we will scale rapidly on those. It this idea of fast innovation, fast prototype, fast to market and fast to scale. That's what we are doing there.

Open innovation is really around connecting with Start-ups at an early stage. Whether it is to build your M&A pipeline or to learn how Start-ups are thinking about consumers trends and that's been quite effective. We have several different models to do that.

The last one that I am proud of is that we have nearly 50,000 employees in the U.S. that are consumers every day. They go make purchase decision in Food and Beverage every single day. We wanted a tool that allowed us to tap into the collective intelligence with our employee base and we have done that. We launched it in December. We went to them and said look give us your best product ideas. We had ideas from the factory floor, in some of our factories, in our sanitation department, through marketing department, finance department. We had over 600 product ideas, we selected 5 finalists and from December we shall launch the first product in May and we shall launch all 5 of these to come out of this crowd sourcing program. Our employees – this is an example of talent as a growth differentiator for us. We will continue to leverage this and we are excited about that as a platform.

Slide: Three priorities to win

So those are the priorities to win. That is how we continue to deliver the growth that we did in 2018 in the U.S.

Slide: Continuously driving the Virtuous Circle

Obviously a lot of that takes investment. We built a very strong muscle in the U.S. in the last few years in taking cost out of this market and have been a big contributor to the growth targets. Whether it's on structural cost, or margin enhancement or ROIC. So we have got another over $600m across the next few years to take out.

We will start to balance the investment a little more towards driving growth and less towards bottom line but we kind of have a rule of thumb that we follow of around 50:50 there.

Slide: Driving growth above industry average

I will just close with look, you know we don't talk about revived U.S. growth, we did it and we are excited about the future that that holds.

Really by driving this hybrid growth model, we think it works, it's delivering for us across the business. We have got tremendous growth platforms, be it Pet, Coffee that we will leverage to drive growth. You have heard it from me several times but I believe talent and these capabilities for that talent is a differentiator in the market and so we are very focused on that.

Everybody talks about creating an agile organisation but what does that really mean. For me it's about building an organisation that has this mind-set everyday of performing, at the same time transforming and building an intellectual curiosity that forces you to experiment. If you do those things simultaneously that will unlock industry leading growth in the U.S.

So that's it from me, that's the conclusion. Thank you.

Q&A Session

Questions on:	**Stouffer's and Lean Cuisine performance and recovery** **Managing small and start-up brands alongside Billionaire Brands**

Participant:

I've got two questions. One for François and one for Steve. Steve can you maybe deep dive a bit more into what's happening with *Stouffer's* and *Lean Cuisine*. I was a bit surprised to hear Mark on the conference call saying that the recovery was a bit of a one-shot wonder and what you need to do is to get the market more continuously with innovation. Just interested to know why those brands declined after a good 2017 and what you are doing to actually get sustainable recovery in those big Frozen brands for you.

Then the question for François is really about big brands. Nestlé is the portfolio of big brands, 34 brands with over a billion Swiss francs of sales. How do you manage that in a world where we are seeing a big transition to smaller brands and how does Nestlé develop small brands, start-up brands when you have got those huge brands within the portfolio.

Steven Presley, Chairman and Chief Executive Officer, Nestlé USA:

Thanks for the question. Yes 2018 for us on Frozen was definitely a tough year on the meals side, remember you have got a kind of de-average our Frozen business. The reality is that food changes so fast every day with consumers that you have got to build this rapid innovation pipeline in food and bring the relevant trends. They can come to your big brands, a little bit to the second part of your question.

We see it when we bring relevant trends to our big brands and deliver great tasting products they will grow. So we are absolutely focused on accelerating innovation, driving investment to return to the growth and making sure that we are serving across the consumer spectrum or needs state. We got very focused on delivering on Nutrition, Health and Wellness and clean ingredients, which are important, but it is important to a sub-segment in the category. As we think about innovation in the future we have got to bring that innovation across the entire segmentation of the category. So that’s really what we are focused on in Frozen food.

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

Just on big brands. Big brands are not dead actually. As I mentioned before we have 34 Billionaire Brands, if you look at it their growth profile is actually better than the other brands that we have. So I don’t think that we can say that big brands are dead or that they are not relevant to consumers. If a brand is big and not relevant to consumers it will disappear. If a brand is big but relevant to consumers it will be okay so we do not have any issue whatsoever with the size of the brand. Actually if I push it even one step further you can have a global brand that has some local personality. So we have to manage the personality and the attributes of a brand and what it stands for. Let me just give you an example which is *KitKat*. *KitKat* when we bought from Rowntree it was present in eight countries, now it is present in eighty countries. It is the second largest confectionery brand in the world, if we include our partner in the U.S. Actually *KitKat* is a global brand but we manage it locally with a lot of delegation of empowerment and local flavour. Take the example of what we have done in Japan where we have developed flavours with Matcha tea, with Saké and so forth so I think we have sixty different variants of *KitKat* that available in Japan that are not available in other markets.

I was in the Middle East a couple of days ago, it’s exactly the same thing. We have developed a lot of variants, so the brand is not the same everywhere. I think even the flavour that we have for *KitKat* in Western Europe, continental Europe and in the UK is different. People have different expectations. Once again big brands have to be relevant and we have to make them evolve and grow over time. We have to sure that we manage their personality and their attributes in the right way.

Questions on:	**Restructuring costs beyond 2020** **Dividend priority**

Participant:

Two questions then. One is on the restructuring. You are saying the CHF 700m now will probably be for a couple more years, which seems to point maybe to an additional plan post 2020. That would be my first question if you want to comment on that.

Then the second question just on the whole balance sheet, dividend. You went through the priorities and the dividend is number two. I got the impression last week on the call that the dividend has actually slipped right down and you want the flexibility for M&A and buybacks. Buybacks to mop up excess capital. But you seem to be saying no, dividend is still number two priority, if you could just clarify.

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

So restructuring, as said earlier, we do expect to continue having a certain level of restructuring. Probably around CHF 700m could be even probably more given that we get a good return usually on this type of investment. This is an investment for the future actually and we have to adapt to consumer demands for example so we don't see this is necessarily anything negative. Some of this restructuring is actually positive. When we consolidate head offices as I mentioned earlier.

We want to focus first on delivering what we have to achieve for 2020. We start working on some initiatives post 2020 but our clear focus for the time being is to make sure that we deliver next year what we have communicated. I don't want to start talking of post 2020 but be aware of the fact that for some projects we start thinking a little bit of what we can do later on, especially in areas where we need to have a long term plan like manufacturing for example. It's more complex as I said. We now that we have delivered relatively less so far but more to come and even post 2020.

Regarding your question on balance sheet and dividend. We keep the dividend payment as the second ranking and second priority on our list of capital allocation. The only thing that we have done is to reduce the pay-out ratio. It used to be close to 70% now it is at 60%, we have said we are reasonably happy with that level. What you need to take into consideration as well is that we want to make sure that we can sustain the dividend practice that we have, because we don't have a dividend policy we have a dividend practice, to increase the dividend year after year and we have done that for the past twenty five years. We believe that it has value. But let's not forget one thing, we pay the dividend in Swiss francs which corresponds to less than 1% of our trading currencies, so there is a significant mismatch because we are trading predominantly in Dollar linked or Euro linked currencies and other currencies and there is disconnection there.

Look at what happened last year. We had 1.7% of negative deviation in reported sales coming from foreign exchange. If you look in the past it was the same. Don't forget for example three years ago the Swiss franc revalued against most currencies by 10% overnight. So we want to make sure that we sustain that dividend practice for the future. It is true though that what you said is correct which is the fact of reducing the pay-out ratio which gives us a little bit more flexibility, you said for M&A but it could be for share buyback. You have seen that we have decided to accelerate the completion of the share buyback that we have in progress.

Questions on:	**Pet food market share in the U.S.** **Cost of growth**

Participant:

One for each of you if I could. Steve, in the U.S. pet food is a pretty dynamic space as you know. A number of the competitors in the wholesome, natural space have made forays obviously into the FDM arena. They have talked basically about how much of the share is going to wholesome naturals, really coming primarily from more the mainstream space as opposed to share trade-offs among the higher end premium, wholesome, natural guys. Again all within FDM. I'm curious if that is consistent with what you're seeing as well.

François, it's pretty interesting a lot of the smaller U.S. food companies more recently that have started to see a little better volume growth are not seeing what we would consider the traditional type of volume or operating leverage that comes with a better top line. I guess I am trying to get a sense of if from your vantage point if there is any reason why that type of relationship has changed for the group. Another way of asking it is, is your feeling that the cost of growth has gone up, in some structural way, for these packaged food companies.

Steven Presley, Chairman and Chief Executive Officer, Nestlé USA:

On the channel jump that happened with some of the premium brands clearly to us it seems like they have split households a lot. Those shoppers were existing in both of those channels previously so now they have multiple channels to meet their needs. They continue to grow in the space. We are happy with our development in both the pet speciality channel and the Food, Drug (FDM) we are the leader in both and we continue to see that. So for us what it shows is that pet food is a great category, we see continued competitors investing and ourselves investing in this and we will continue to drive that as well in one of our global categories. The channel shift didn't really give us anything we didn't think it would do and we've seen that a lot of those brands have shared their consumers across more channels now.

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

Regarding the way we deliver the bottom line improvement if I simplify, it is relatively simple. If we grow as we did last year 3% or more in the future because we expect to accelerate or to see our growth accelerating. If we grow 3% and if we see our structural cost, which is roughly speaking fixed cost, industrial, distribution and G&A, which accounts for about 18% of sales. If we see this cost declining in absolute value in Swiss francs by 1-2 %, and if we grow 3%, we deliver 50 basis points of margin improvement.

So that's relatively simple, that's very healthy as well given that you know first of all we are not in business of heavy cost cutting. I think in today's world we see the limit of this type of strategies to start with. We do it, we do it with reason, we do it over time but I think to bring 50 basis points of margin improvement from that way is healthy.

What we try to do as well is to ring fence and protect, as much as we can, marketing spend and R&D because we are in the business of innovation and I am quite happy to see that last year we have increased our marketing spend by 1.2%. It is a little bit less than sales because there we don't ask them to reduce their investment we ask them to be more efficient. I gave some examples. We have reduced the amount of agencies that we work with in terms of printing and point of sales materials dramatically, by 75% we will do between 2016 and 2020.

I could give other examples. We are for example internalising and taking in-house, building some content studio, media studios, we created eleven of them last year. We do produce more and more content internally for two reasons, it is less costly and the other reason is that we can move faster.

So to answer your question has the cost of growth increased? Not necessarily. We have to work very closely through that combination of growth and cost discipline, I am not saying cost cutting, I am saying cost discipline.

End of Transcript