7 May 2019

Speakers:

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

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Questions on: Net debt to EBITDA ratio and credit rating
ROIC expectations

Nadim Rizk, Fiera Capital:
Two questions. What amount of debt to EBITDA and credit rating you would be comfortable going to in a situation where there is a large acquisition or a large share re-purchase? So how high up on the debt and how low down on the credit rating.

Separately but sort of related to that, what do you think a business like Nestlé should be generating in terms of returns on invested capital? I obviously saw the improvement over the last few years, which is impressive, but what would you think should be a reasonable ROIC target that we should be expecting from that business.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
Maybe I will start with the item on the net debt to EBITDA. We said two years ago that we expect to have as a consequence, not as a guidance as a consequence of our actions and mainly our share buyback, that we expected to land around 1.5 x in terms of net debt to EBITDA ratio which has been increased to 1.7 as a consequence of the reclassification of some debt items for IFRS 15 and 17, sorry for the technicality. So we were at 1.6 last year we should be around 1.6 at the end of this year as well. We don't provide any guidance there in terms of net debt to EBITDA ratio.

As far as rating is concerned, as I said earlier, we are AA today, AA and AA-. We have said publicly that we would be comfortable, if the opportunity was arising, to be in the single A space as a floor. But only if the if opportunity arises, so there is no target there.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
On the second question, we are not providing a target number but it should be more than you saw for the last year. So the answer is more.

Question on: Exit from DSD in US and other opportunities

Jonathan Feeney, Consumer Edge:
On the US DSD exit, first I know it is a relatively small number in the big scheme of things but on a run rate basis, how much TOP are we talking about do you think in savings after 2020. Order of magnitude, how much savings from the move? Clearly there are some savings.
Secondly, more importantly, you know your managers made a lot of really good points about how the route to market has changed and how distribution relevance has really declined relative to innovation. I wonder if that process yielded any other insights of other places in your developed market businesses, where there is an opportunity to maybe reduce, reallocate from distribution and marketing into innovation or some of the other things you have emphasized today. Thank you.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Thanks. On that first question about the efficiencies and savings, we would love to be helpful but we wouldn’t be doing you a favor because the minute we talk about this the minute we will have a negotiation about how to share these savings with our retail partners. So we are generating savings here but this is a fairly elaborate negotiation about how these are being shared hence I think it is in everyone’s interest that we keep this close to our chest.

Going forward of course, country by country, we are looking for alternative and better routes to market but let me also say that there is nothing near the kind of scale and vastness of this particular decision. I also want to reiterate to everyone here this is, not only in terms of the absolute numbers, a pretty massive decision. This is also a fairly significant execution challenge for the US leadership team. I am very glad that they took this on. I think beyond what we talked about here for 2019, in 2020 this will really position those businesses for better profitable growth and we’ll be benefitting from this for a long time to come.

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David Hayes, Société Générale:
Just in terms of the size of the business. You have seen some of your peers in FMCG looking to get smaller, split the business. Seemingly to shorten the process again in making decisions, to get more agility and so forth. Do you think that the business is still far too big and that those big decisions are still too slow going through the business?

I guess related to that, in terms of disposals, the Herta disposal, can you just talk about why that is the most recent brand that you are going to jettison from the business. What is it about it that when you reviewed it, didn’t tick the boxes it needed to stay in the business.

Then the third question, which is I guess ticking the box in terms of questions, the L’Oréal stake. I just wondered whether you can touch on where you are with that. I guess in the
context of the Skin review it seems like all the focus today has been on the Food business, and that this is a Food entity perhaps much more than we heard about a few years ago. Where does L’Orèal stake still sit in a business that no longer seems to want to get into skin/cosmetics? Thanks

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

Thanks. When it comes to the first question, of course you are always trying to improve but when I look around and as I look at where the rest of the industry stands I feel really good about the time to market that we have been talking about to you today. Don’t just take my word for it. When you look at some of things, some of the products that we talked about today and when and how they are hitting the market now. Think about the plant based burger and what we said about this. Think about Greg and the CPD product that he talked about. If you look at the timing of some other key competitors and where they stand and how these products compare I think it really shows we are there.

This was never about beating other people by a week or so. It was simply about avoiding sometimes year-long gaps where other people were building up a sizeable business on the back of a product innovation that we were just not following on. I think that has been stopped and I think in fact in quite a few of these we are leading now and so we feel really strong about that.

On Herta, clearly you have heard us stress the importance of plant based alternatives. I think that plant based is one of these trends that is not only attractive mid-term and short term but also mid to long term. This is not about people converting to Veganism this is about people having a more flexible diet over time and putting some plant based alternatives into their meal plans. As that happens over time you will have all the elements for long-term mega trends here, whether it’s meat products or on dairy products. With Herta, this is a business that had its core, its brand essence, in cold cuts and sandwich type meat products. You are talking about industry fundamentals that are much lower growth. They are also volatile because you are talking about product dependency on commodity pricing. The business has done wonderfully well in its segment. In its segment, it is actually one of the leaders in Europe and its financial performance is wonderful so in its segment it is very attractive. But the segment overall is not one that is either financially imperative to us or strategically getting us to where we want to be from a Nutrition, Health and Wellness point of view. Hence it does make sense.
Very often we face today questions about specific timing, for example DSD or Herta or so. This is never just on the business and the individual opportunity alone. It is also keeping in mind all the other things that are on the plate of management. How do you slot things so that management has enough time and energy left over to focus on what really matters and that is building a business for the long term? Of course when you look at Herta there is going to be some carve out and deconsolidation burden, particularly to the French management team, to the German management team, to Belgium and to some extent also to the UK.

So in all of these things it’s about what you want to do and then, since you can’t do everything at the same time, you have to balance this with what else is on the agenda and then you have to make choices. This is what we have done.

Last but not least on L’Oréal, nothing new to say on this. Clearly here again it is in everyone’s interest that while we of course pay a lot of attention to this investment, we stay very discreet about what our future plans are.

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**Warren Ackerman, Barclays:**

Hi, it’s Warren at Barclays. Two questions for Mark. The first one Mark is that we have heard a lot today about personalization of the portfolio. Whether it’s Tails.com or what you are doing with Pure Life, but my question is how do you take that more broadly across the portfolio and how do you conquer the extra costs of the last mile of doing it profitably?

You have also said recently, on the last conference call, that big companies can make a big difference and that is obviously a bit of fight back against all the small company share gains of the last few years. You gave the example of monitoring your customers on palm oil, using drones. That is obviously one small example. Are there any bigger examples that you can give us today where you think that Nestlé as a big company can make a really material difference.

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

To start with the second one. Let me just clarify. We are monitoring our suppliers, not our customers just in case anyone is worried. Yes, this is an example where we could deploy technology for a greater good purpose and it is one more example of moving things at scale that a small to mid-size company cannot do. You may have noticed in most of our presentations today this whole notion of creating shared value and business as a force for
good, really figured large. I think that is very much in our mind. This is a day and age where doing good and doing well very often, in the Consumer Goods industry, go hand in hand because I think most of the younger generation of consumers, millennials, they do not only care about what they are buying but they also care about how this is being made. They care about the business practices and the values of the companies that they buy from. It is no longer just good enough to be respected for the quality or the attributes of your products but also you need to be liked about the way you go about your business. So this is a big theme. A lot of this has to do with style but a lot this has also to do with substance.

So in my opinion this whole notion of really making a dent, when it comes to for example improving on plastics waste or improving the water consumption, improving on CO\textsubscript{2} emissions and many of the other issues that we touched upon and really having an impact. Sooner or later people ask this question, just being innocent about it is no longer good enough. People will want to see results just like you want to see financial results. I think we have the scale, we have the technologies to make it happen. If we move in this direction, take that satellite monitoring as an example, I am totally convinced that when we started in Food and Beverage we were the first ones. There have been several people following us now. This is going to be the de facto standard on how you track suppliers in that particular space, in palm oil, going forward. So we have that power, pretty often as a result of our scale, hence, let’s use it.

On personalization, I am a big believer in this. I believe this is also one these longer-term themes that we can pursue and this is not only limited to the pet space. This is also a big theme in many of our Food and Beverage categories. So we will be playing this, we will be using this. In some cases it is more about assortment but you can also take it, on a science-based basis, all the way to the true medical needs of a consumer, whether that’s in Nestlé Health Science, in Nestlé Nutrition or even in some of the main stream food categories.

So we are putting a lot of investments in place to position ourselves well for this. I think we have a lot of good projects going on, led of course by Stefan, but then in close collaboration with the Nutrition SBU and Thierry, with Greg and also with some of US based innovation outposts here. Even our US food brands are involved with this. So I think there is a lot of work to be done there.

It’s also a way to stay digitally closer to the consumer because, in order to do personalization, you need to get into direct touch with the consumer digitally. You need to have data, they need to give it to you and in return for that they get a personalized product.
So in this important effort, not to get disintermediated, I think it is worthwhile to put that spending in place and we are quite bullish about this opportunity. Now you will see occasional areas of progress. You will see for the example the expansion of Tails.com, you will see other things happen there but to me this is a five, ten, fifteen year theme, where brand after brand, category after category you will see us try and improve on that. So it is not a one or two year kind of race.

Question on: Organizational structure

Martin Deboo, Jefferies:
The question is about how the organizational structure evolves medium and long term. One observes in the industry a move away from regional structures towards more direct management of large markets from the centre. You are quite unusual in your zonal structure that you still have macro regional layers and I guess the question I have is and I guess it is for you Mark, what value do you feel it creates for you to have North America and Latin America managed within one Zone, what is the value of that? I note what you said about the matrix at the start and completely get why there is value in having a creative tension between a global category and some sort of geographic construct. But my question, is the geographic construct you’ve got too large, too unwieldy?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Look if you approach something with a greenfield point of view you can always debate about should this country or that country be included in this Zone or the other one. Different companies may come to different conclusions. But we have something that has some historic track record here. Aside from this whole matrix question, which I addressed this morning, I would also just like to confirm these Zone management structures do deliver. When it comes to these Zone management structures providing good counsel and guidance and value-added to the country management teams that then do the work on the ground, this works.

You may have seen from the presentations that different Zones here have come to different conclusions. So Marco with his particular Western European challenge and large, immediately neighboring markets with some stronger need for category led harmonization has structured this inside his Zone slightly differently from the solutions we have in Zone AMS and Zone AOA. And that’s fine. I think an organization our size needs to have some of that internal organizational flexibility. This is also one of the reasons why, when people ask me about these three globally managed businesses; Waters, Nespresso and Nestlé Health Science, after the move of Nestlé Nutrition into the Zones, like what is going to be happening
about them? To me it is absolutely no problem to have those managed globally. There is no pressure here to go one-size-fits-all. A company our size can handle that. I insist on each and every one of those to be really super-efficient and tightly managed. But you know the one-size-fits-all, the efficiencies gains from that would be quickly outweighed and lost by some of the nuance that you are missing by having an organizational structure that doesn’t do the business full justice. So I think having some of that flexibility makes sense.

We also reserve the right, not that I have anything to announce, but we reserve the right as we look towards the future, if in the future we need to make geographic adjustments to some of our Zones, we would if needed do that. We have done it in the past. For now it is important for me to point out these Zone management structures do work, and given the sheer size and since there is no real peer in the industry that has a size like this, you know any one of these Zones could be a very, very large stock quoted Food and Beverage in its own right. I think it is important to bundle some of these country managements that report into the Zones.

Question on: Capacity constraints

Alan Erskine, Credit Suisse:
We have heard on a couple of occasions where you have found yourself capacity constrained in Pet food, in Infant nutrition. I am just interested to know the circumstances that allowed that to happen and perhaps what, going forward, would prevent that happening again?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Let me start by reiterating something that came up in one of the breaks and let me also praise Laurent for very openly acknowledging the situation. There was no need for him to say this and to be very open about the fact that yes, in wet pet food, we had these capacity constraint issues and we have been doing something about it. Now, going forward, we are well positioned to fulfil that demand. To me that is a very open acknowledgement that something did go wrong, together with the resolve to do better I think is an important part of improving the organization going forward. Stuff will continue to go wrong, we are trying hard not to do it, but you know this is a large business, stuff will continue to go wrong. It’s all about addressing it quickly, acknowledging it openly and then do something about it. That whole attitude, just by talking about it very openly, did shine through and I liked it.

Now this all happened at a time, keep in mind we are talking about a 2-3 year lead time here on getting that capacity installed, so if you are forecasting demand it is not always easy then to get it perfectly right. This also happened at a time when we were internally doing a lot of
drives to get our CAPEX percentage down and yes, things happen. We corrected it quickly. It’s corrected now. We grabbed the opportunity. I am bullish about that part. But look there will be other things going wrong. Success in business is about getting up one more time, dusting off your clothes and you march forward.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.: Maybe to add something to this question. Even if you saw in my presentation that we reduce the amount of CAPEX as a percentage of sales, there is no such objective. So we are driving the CAPEX and we are accepting CAPEX projects whenever it drives growth and returns. So maybe one year we can spend more than 4, maybe some years we can spend less than 4. There is no single objective of a percentage of sales for CAPEX. Once again it is driven by sales growth contribution and returns.

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John Ennis, Goldman Sachs:
I’ve a question on private label. A lot of the presentations have focused around the premiumization opportunity and I wanted to get your view on the threat of private label as you essentially extend the price umbrella on the high side. Do you think that creates a greater opportunity for private label to come in and fill the void?

Then a clarification question on the mid-single digit growth target. I think you said that it includes the businesses already up for review but does it also include any assumptions on further portfolio rationalization before 2020? Thanks.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Thanks. On private label and premiumization. The circumstances are always slightly different depending on what specific category and situation you are talking about, but by and large I think premiumization is a winning strategy. It does wonders for our top line and also for our bottom line. I think it also fills an important function for our consumers. But premiumization needs to be built on tangible product advantage. If you are just premiumizing without that then you are talking a simple and straightforward price hike. Yes, those, at some point, will create an umbrella for some people to come in underneath, whether that is private label or whether that is some other brand that takes advantage of that with a more competitive offering and then tries to grab market share from you. So I think that premiumization is wonderful but one of the reasons why, all day long, particularly this morning with Patrice and Stefan, we were stressing this notion of product innovation and product development so
much. At the end of the day there needs to be tangible product performance advantage. Based on that you can build brands, you keep brands interesting and you can do exciting things on pricing. Without that it all comes to naught. That’s why the two are related.

Secondly on the OG target for 2020. Yes, we’ll take account at the end of 2020 and whatever gets consolidated or de-consolidated until then, all of that is counted then towards that OG target for 2020.

**Question on; Legacy issues**

**Jonathan Cook, State Street Advisors:**
Mark, you talked about the success that the EMENA region had when dealing with legacy issues as well as going for growth. Could I ask at your level, at group level, what are the legacy issues that you are still grappling with?

**Mark Schneider, Chief Executive Officer, Nestlé S.A.:**
I wasn’t only talking about the success. I was also simply admiring the discipline that Marco and the Zone EMENA leadership team are displaying in basically handling those. As you know this is on-going work and this will take several years to take us through this period. For the group, I feel very good about the progress we have made and obviously as the world around us, as the market around us keeps changing, we’ll need to adjust. Frankly I feel there is a lot of built-in strength in what Nestlé has to offer and I think we are in the process of making the most of that.

**Question on; Cash Deployment**
**Acquisitions outside four main growth categories**

**Céline Pannuti, JP Morgan:**
I have a few questions on cash return or capital deployment. So if I look into 2020 with the proceeds of some your disposals, the continued cash generation, net debt to EBITDA will fall to below 1x. Is it something that you would be comfortable with and if not at which point there would be a decision about either further share buyback or what you are holding on for M&A?

Then I have a follow up on M&A. I think you said that two thirds of your CAPEX is in high growth categories. But if you look at M&A we have had a lot of discussion about growth in Food. So would there be potential for you to look at as well, or for you to focus your M&A outside of the top four high growth categories. Finally, should we assume that is going to be small to mid-size deals or could there be the potential for bigger acquisitions?
Mark Schneider, Chief Executive Officer, Nestlé S.A.:

On the first one, I don’t want to front run the outcome of our reviews on Skin Health and Herta. If we do have significant cash inflow it is also understood that, within a reasonable time, in addition to what to telling you what the cash inflow is, we would need to tell you what we are going to be doing with that cash. Which is either to find a meaningful way to deploy it or to find some meaningful way to return it over time. It was certainly not the purpose of this exercise on the one hand to lever up slightly only to lever down then with cash inflows coming in. Give us some time here. Complete the reviews, see what the outcome is and then, with any cash, within a reasonable time frame and allowing us some time for internal discussions, we would certainly also give you some indication what we intend to do with any cash that comes in.

On Food, in particular and also acquisition opportunities outside of the top four. I am absolutely in favor for reasonable, good, meaningful acquisition opportunities and I think we have confirmed that many, many times. It is all about the right things and it is about being selective and about being sure what we are buying there and is there something that is only available, in a short time frame, through acquisition or is it something we can do on our own.

So we have to be selective and I like very much what François was pointing out. We’ve screened so many deals and in addition to what he said, which is the financial discipline that we exercise on quite a few of these potential deal opportunities, I also wanted to stress and underline the strategic discipline that we exercised. You have seen so many rumors floating around about potential transactions we would have been involved in. You have seen us also deploy the capital in a very disciplined manor along the lines of categories that really are a hand-in-glove fit to our business. You have not seen us do left field kind of moves here recently and I think that is something that we are proud of and we intend to continue that. But yes, we will not limit acquisitions activity to the top four only and in fact even for the last two years there are already quite a few examples here. Think about Sweet Earth in the US which is part of the Food category, an acquisition we are very proud of.

**Question on: Yinlu**

Thomas Russo, Gardner Russo & Gardner:

Looking at the photograph from the Coffee presentation of the products that are coming out through Yinlu that, I think the mention was, it was the number one RTD seller in the category. I am curious as to the steps that you have taken to claw back from the early disappointment
of both *Yinlu* and *Hsu Fu Chi* to create the powerhouse that you are creating. How much has it do with partnership with others and how much maybe with the use of e-commerce and new channels that you have used. I suppose it has been a remarkable turnaround at least thus far.

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

Yes thanks Tom. We also are not trying to look back with rose-colored spectacles here. We didn’t buy *Yinlu* to be a leading player in RTD coffee. We have been truly surprised about how quickly that peanut milk category has been coming down. That has given us quite some pain in 2015-16. But then what are you going to do about it? It is true we did have long-standing ambitious plans on scaling up in ready-to-drink coffee, which I think is a huge opportunity in Asia. This kind of aseptic filling is the key technology to make that happen, so here was the way to use that installed infrastructure and make good use of it and over time return to growth. I think under the circumstances we made the best out of a situation that has given us a lot more scale in a very important emerging market but on a trend or on a category that came under pressure faster than we expected. So this is about a pragmatic response to a situation that no one had foreseen at the time when we bought the business.

**Questions on; Acquisitions and Disposals Digital capabilities**

**James Targett, Berenberg:**

Two questions. Firstly, just on the transactions that you have vetted over the last couple of years. The 35bn were those just acquisitions or do they include meaningful potential disposals.

Secondly looking at your digital investments. If you look at first party, consumer data, in-house digital capabilities, digital media spend generally do you now feel you are ahead of peers here relative to your size or do you still have some catchup to do?

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

On the 35, it’s only on acquisitions. Anyway we are in a sellers’ market so dispose of a business today is not too much of an issue. So the 35 was only on acquisitions.

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

So think of all the money we could have tossed around and we didn’t so I hope that gives you some relief.
On digital, I feel very good about where we are and obviously by category, by market you can always come to different conclusions here. Sometimes you’re ahead, sometimes you are a little behind and have areas for improvement but overall, across the board I really applaud the team under Patrice’s leadership, for how much progress we have made here and how much more digitally inspired we are in our marketing efforts.

**Question on:** Speed of personalization program

**Pierre Tegner, Oddo:**

Just a follow up question on personalization. Do you think that with all the progress Nestlé has done in terms of velocity, innovation and agility, do you think that the organization globally is ready to embrace more quickly the personalization, because I suppose that there are many consequences in terms of supply chain, manufacturing, way of doing business. Is it something that you are able to put in place on the short/medium term or have we to wait for more years before this kind of switch?

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

I think as we talk about personalization. Especially across all these different categories where this may apply and also different markets where we would want to offer this. I don’t think of it as one monolithic effort that kind of gets rolled out. We are too large an organization for this and that would not really respect the kind of decentralized nature of who we are and different circumstances in different markets. So we have already several different efforts underway. So for example, Nestlé Japan has been doing some very pioneering work on this in the healthy ageing category. With Tails.com we have a majority stake in the business in Europe that I think in the pet space is doing fabulous work. Then we have some very interesting work going on as we mentioned in Nestlé Health Science in the Nutrition space. But there are different efforts and they are at different stages and different degrees as to how granular you do the personalization. Over time, we will be sure that we avoid unnecessary duplication. We will also be sure to the largest extent possible that we drive a harmonized data model so that let’s say 10-15 years from now we are not sitting on totally incompatible pools of data from different parts of world and different countries and different categories. This will be a multi-pronged effort and coming from different parts of the organization. Yes some of this will involve manufacturing and supply chain upgrades but this is not one massive investment program, not something that when you look at these discrete steps they will all of a sudden lead to a step change here in CAPEX. This is something that is getting phased in and will be part of our normal CAPEX spend over time. So if you have any concerns about the up-front spending here I think we can alleviate that.
Questions on; Investment in the business
Pricing

Guillaume Delmas, Bank of America Merrill Lynch:
Two questions for me. The first one, François in your presentation you said that where you land in 2020 against your 17.5 to 18.5 margin target will be in part influenced by the need for re-investment in your business. So my question on this is how should we interpret this, are you alluding to potential situations of underinvestment or increased cost of doing business in some of your cells or, as you might come across some additional opportunities, you want to maintain some flexible P&L ability in order to accelerate the growth.

Then my second question is on pricing. How should we think about pricing in your OG algorithm because as Marco said this morning should we look at premiumization as being the new pricing for most categories and regions or is the lack of pricing in recent years more a function of lack of commodity cost inflation and relative effects stability.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
For the first part of your question, the answer is the second option, which is more about opportunities to re-invest behind innovation. So this not linked to the fact that we would under-invest I think that clearly we invest at the right level. I think Patrice mentioned it this morning I think that we have increased the absolute amount of spending, last year in marketing by about 1.2%. This, clearly for marketing and R&D, this is I would say less about spending more, it’s about spending better which is what has been done. It is about reaching efficiencies without necessarily cutting the amount of spending.

As far as pricing is concerned, I think Marco said it very well this morning, mix is the new form of pricing. Pricing exists still I mean if you look at the situation in Q1 we had 1.2% pricing component in our OG. This is much more than last year. Last year we actually had 0.5%, which was made of 0.3% in H1 and 0.9% in H2. We had moderate pricing over the last couple of years. It was largely the consequence of two factors. The fact that we were living, worldwide, predominantly in a deflationary environment; in Japan, to a certain extent in the US, certainly in Western Europe and especially in our categories. This came jointly with the fact that the commodity cycle was down. If you look at it two years ago we were, on average as far as our basket of commodities is concerned, about 30% in 2016, 30% lower than where we were in 2011 so there was less need for pricing. So part of the pricing that we get this year is partly coming from the fact that there is a little bit of increase in our basket of commodities. It has to be looked with a lot of care though; you have seen it last year the
basket of commodities can be very different from one Zone to the other. So for example, last year we had a significant increase in AMS while we had a decrease of commodities in the other regions. So this year I think it is a little bit different as well. It is largely coming from the mix of categories. For example, EMENA has stronger component of coffee in their total business as Marco presented this morning. Obviously as coffee goes down the pressure as far as commodities is less for them.

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Pinar Ergun, UBS:
I have three quick questions. The first one is on M&A. Some of your competitors are focusing on doing a large number of small deals. Any thoughts on that would be appreciated.

The second one is on Confectionery. How do you see Confectionery contributing to your future plans on Nutrition, Health and Wellness? Especially when it comes to your local brands rather than the global ones.

The third one is on Waters. Do you see any risk that consumer backlash against plastics may actually negatively impact your bullish view about the category growth in the future? Thank you.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Thanks. On the first one, a very consistent message to what we were trying to tell you in London in 2017 and that is we will occasionally invest in small to mid-size companies but we are being very selective about this. Each and every time there is a lot of internal questioning about what this new entity will bring to the table that we could not do on our own. When it comes to either a specific brand name or technology or something that we could not easily replicate within a reasonable period of time. The reason that we have to be selective on this, in my opinion, is simply that if you go for a very large number of transactions in this space, and given that you have to give all of the entrepreneurial entities some degree of freedom, you will sooner or later end up basically as an investment fund in small to mid-size Food and Beverage companies. This is not a space where we want to be. Handling each and every one of these investments takes a lot of extra management time and attention. These are fragile relationships that need to be managed in a very flexible manner so you can do this on a number of deals but you can’t do it 20, 30, 40 times. We have been doing some of these deals as you know but we continue to be very selective on this. That point of view has not
changed over the past several years. The ones we have done until now I think have worked out quite well for us.

The second question, Confectionery. So we are quite bullish about some of the progress we have seen in Confectionery. As you recall when we put the US Confectionery business under review, we underlined very strongly our commitment to Confectionery on a global scale. Since KitKat is really our only global brand here, we also made it clear that we retain that complete flexibility when it comes to reviewing some of these local brands. So pulling out of one or several of them, as we did with US Confectionery should not be seen as a lack of commitment to the category overall. The category overall, both in terms of Nutrition, Health and Wellness when you think about healthy snacking, and also in terms of premiumization when it comes to just going to higher quality and higher price confectionery, I think it offers a whole lot of opportunity. Especially connected to gifting where you know premiumization is a very good strategy. There are also personalization opportunities so I think there is a lot of promise here and we have a lot of very strong, rich, local brands with rich local history and lots of local relevance and this is where Patrice’s statement comes in. It is not about global or local it’s about how strongly does something resonate in this particular catchment area with our consumers and where can you take this. So we will be very selective here and on some of these we will invest a lot and on others we will do less. On others we may even get out of them but overall Confectionery is a business that we are interested in.

Water and plastics. I do think we have several quite interesting container strategies in place as Maurizio described to you. We also then have those very interesting dispensing technologies in development that will hit the market very shortly. We are talking about basically a year’s time. I think to the extent that you can re-direct the business in a short period of time, to put that new environment into consideration, I think we are doing all of this. I am not aware of anyone at scale being significantly ahead of us. Consumers need hydration. Again is the awareness of this plastics issue going to be on the rise, yes absolutely, but I see us in a good space when it comes to addressing these challenges and coming up with solutions that actually meet consumers’ expectations.

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**Thomas Russo, Gardner Russo and Gardner:**

Two quick questions. One for François. You referred to in your comments that ROIC is going to be increasingly woven into near term and long-term compensation. I am curious to hear how that’s working.
Then for Mark, so many people with whom we have met the last couple of days talk about their product launches as version 1.0, 2.0 followed by 3.0. Now I am just curious how that thinking has made its way through the organization and what do you drive through that thought process.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
For the ROIC, I think it made a lot of sense that we introduced it in the long-term incentive as well as in the short-term but the share of it is much larger in the long-term incentive given that, as you remember, our return on invested capital went down quite significantly for some time. So I think that it requires some understanding as well. So this is a KPI which, in my opinion, is very well suited for the top management because you need to understand what the various components are. It is a relatively complex KPI, because of the numerator, denominator and one large part is linked to M&A, which, as you know, most of these decisions are made at an executive level. At operating level, for example in some of our markets, we are much more focused on some of its components like working capital, like CAPEX. I think it makes sense as well to make sure that people are incentivized on what they can influence directly and ROIC as a consequence is more relevant at executive level.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Tom, on the second question, you can always do better but I think that new thinking has got very good traction inside of the organization. Don’t just take my word for it, I think you are also seeing already in the market now enough examples from Nestlé where in a short order of time we are coming out with version 2.0 and then believe us there is going to be a 3.0 and a 4.0 and a 5.0 so it’s happening. One thing was mentioned this morning that I just wanted to underline. All of this also gets facilitated and supported by this internal idea-to-launch process that was radically simplified and made much more flexible. As you can imagine for an organization here that launches literally thousands of products every year if you don’t do this without some consistency when it comes to the internal process you are all over the place. Hence it was important here that we wanted to lighten that process. We still need a process and I think significant work has been done in that regard, that process was rolled out last year and I think it is facilitating that whole approach. It doesn’t put you into this perfectionism straitjacket where, if you follow all the discrete project steps we had in the past, it takes you literally one or two or three years to get something out the door. Now we have something that is much more attuned to the specific circumstance and hence it facilitates this rapid-fire innovation kind of thinking.
Question on: Joint Ventures

Alain Oberhuber, MainFirst:
Mark, I have a question regarding the JV’s. We heard that you feel very well with Froneri but how do you feel with the other JV’s – Cereal Partners Worldwide as well as with Lactalis.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Froneri is a bit of a different animal in that this a joint venture with a private equity partner and typically, as you know, given the time horizon of a private equity partner these things are not forever. So the whole joint venture is really designed on having a significant amount of impact within a short order of time. I think they have done beautifully in that regard and really energized and rejuvenated that Ice Cream business.

As you know, CPW is a thirty-year partnership. So that one, when it was started, it was done without a specific time horizon in mind. I think over the years it has been a very strong partnership for us. But we are also pretty open about the fact that when you look at the cereal business around the world we have missed out on some premiumization and Nutrition, Health and Wellness opportunities and keeping that category as relevant as it could have been. That’s something that both partners are very focusing on right now.

Then Lactalis is a different type of joint venture to the extent that it is not a 50:50 so Lactalis is in the lead here and we have contributed some of our brands names and there are some continuous stewardship here but it is clearly Lactalis that is in the lead when it comes to that partnership.

Questions on: Opportunities in plant-based products

Eileen Khoo, Morgan Stanley:
Hi, two questions from me. So the first one is can you talk a bit more about the opportunities that you see in plant-based. We heard a lot about it today. I wonder if you could possibly put some numbers on it. So in three to five years’ time how big could this business be for you? What areas in plant based are you most interested in, is it just meat alternatives, is it dairy as well? Could we see you go into beverages? Maybe also talk a bit about the sustainability or sourcing risk around that. For example if you start doing almond milk for example is that possibly a challenge. Just on that as well is private label specifically a threat because it seems like a lot of the retailers are launching their own Vegan ranges, so a least in the retail channel.
Secondly in terms of marketing as a percentage of sales, as you are pursuing these efficiencies so improvement on ROI, how should we think about that progressing over time. Should we see that continue to grow and what is the mix between traditional and digital as a part of that.

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

Maybe to start with the second question. It’s important to me, especially in light of some of the numbers that Patrice outlined this morning, I don’t look at marketing budget as a source of savings. I think it is a short-lived strategy if you do. I love the efficiencies we are generating by being more pointed, more targeted and what have you. But for gods sake let’s reinvest them and do more with that and really develop our business and go for future growth. Now is it always going to even out, dollar for dollar? No. So maybe some of that will also lead to net savings but as we are approaching this, we are not approaching it with the goal of generating savings. Just like we don’t do it on R&D. So for there it is more about the outcome, and more about the things we can do with the spending that we put in place.

On plant-based, I don’t have a global number for you. I would like to confirm that of course it includes the meat alternatives, and also the dairy alternatives since we have lots of categories that touch both of those. To me it is not only about being in the basic article. So I think in Dairy it is even easier to understand. It is not about offering the almond milk, it is more about then having those plant based components be in some of the higher value products that we offer like for example our coffee creamers or our premium ice cream. I think that is also your best way to protect against that commoditization because I think in some of these very basic plant-based ingredients like milk alternatives or so you will see some commoditization. So, what’s more important is to have those plant-based ingredients in higher value products that give the customer some additional added-value. Either the finished product or something that has some convenience to it and usually also premium offerings and better nutritional values and that’s the direction we are going.

**Question on; Coffee business in Europe**

**Alan Erskine, Credit Suisse:**

I was wondering if you could just speak a little more to the Coffee business in Europe. I think at the Q1 you alluded to the fact that maybe that one of your competitors had decided to pass on the lower coffee price to grab some market share, but Marco also said in his presentation that you were rapidly winning back market share. So maybe if you could give a
little more color on what played out there and where we are in that particular competitive battle. Thank you.

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

As always with these things that are unfolding there is a limit as to how much detail we can get into. But let me also put it into the wider context, these things will always happen. Growth category or not, you will always have the competitive back and forth in these categories. So some quarters will turn out better and some turn out worse. What’s more important here is that when you look at the Q1 reporting and how we talked about it, and how Marco talked about it; first of all full transparency and openness about here is the situation and no sugar coating. Then yes, inside, we are very focused on what we have to do about it, and Marco is leading that charge. That includes, of course, the normal short-term competitive interaction, but then also longer term if you want to be sure that you get away with better pricing you have to have the differentiated and premiumized products that really justify that. It’s important to work on both of these angles. Short term the hand-to-hand combat about making sure that we come out of this okay. Then mid to longer-term also what’s the flow of new and improved products that really make sure that we get away with very attractive pricing and premiumization.

End of Q&A

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

Let me really thank you for patience and perseverance during the day. I know that it has been a lot of data we have been throwing at you. Quite a few PowerPoint slides and questions we answered.

Also to everyone out on the web, thanks for staying with us and following us through that day. I can tell you on behalf of team Nestlé we have been looking forward to this day for quite a long time because we were eager to tell you about the progress we have been making and also to share that excitement about where we will take the business going forward. I hope some of that came across.

Thank you, and I would also again like to thank the NUSA team and Steve here for setting all of this up, including the store visits tomorrow. Also, Luca thanks to you and your Investor Relations team for setting up the day and organizing all of this. We really appreciate it. When it comes to sharing the fundamentals of the business and where the business is going, it was quite a success.
Thanks a lot. We look forward to seeing those people who are in the room with us for dinner tonight and the store visits tomorrow. Stay in touch with us, follow us and I can tell you it is going to be an interesting journey that we are in together.

Thanks.

END OF TRANSCRIPT