

NESTLÉ S.A.

**2015 FULL YEAR RESULTS**  
**CONFERENCE CALL & PRESS CONFERENCE TRANSCRIPT**

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Speakers:

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**Paul Bulcke, Chief Executive Officer, Nestlé S.A.,**  
**François-Xavier Roger, Chief Financial Officer, Nestlé S.A.**  
**Robin Tickle, Head of Corporate Media Relations, Nestlé S.A.**  
**Wan Ling Martello, Head of Zone AOA, Nestlé S.A.**

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**Robin Tickle, Nestlé S.A., Head of Corporate Media Relations****Slide: Title**

Good morning, ladies and gentlemen. Welcome to our 2015 full year results conference here in Vevey. The conference will be held in English, but you can also follow it in French or German using the headsets. If you're watching the webcast, you can choose the right language by clicking on the respective webcast page. On the podium we have our CEO Paul Bulcke and our CFO François-Xavier Roger and we also have the members of our executive board and the CEO of Nestlé Health Science and Nestlé Skin Health.

**Slide – Disclaimer**

I take the safe harbour statement as read. Now let's start. Paul, you have the floor.

**Paul Bulcke, Nestlé SA, Chief Executive Officer****Slide – Full-Year 2015**

Thank you Robin and good morning ladies and gentlemen. Welcome to our 2015 full year results conference. First of all I want to thank you for your presence here and I want to also extend a warm welcome to those who are following this conference through the web cast. Thank you all for your interest in our company, in Nestlé.

You all saw the results of last year which we published this morning and let me briefly give some comments on these figures. On the back of consistent performance in previous years we were able to deliver in 2015 profitable growth which is at the higher end of the industry and this in what is still considered to be a challenging environment.

With softer pricing, our organic growth of 4.2% was supported by increased momentum in real internal growth and was combined with continued margin improvements. Additionally we grew or maintained market share in the majority of our categories and markets. It is important to note too that at the same time we continued to invest for the future with increased support behind our brands and development behind our new platforms of Nutrition and Health as well as further development of e-commerce.

We also kept up the focus on portfolio management turning around, amongst others, our Frozen Food business in the United States. Disposing of non-core businesses and forging a new partnership to create a leading player in Ice Cream.

Our free cash flow was at the top end of the food industry at 11.2% of sales. This was as a result of our focus on margins with discipline in capital expenditure and working capital and as such we propose to increase the dividend again as we have done for the last twenty years.

Now for 2016 I anticipate the same trading environment and same challenges, maybe even softer pricing and as such I expect Nestlé to deliver organic growth in line with 2015, with improvement in margins again and underlying earnings per share in constant currencies and

capital efficiency.

Now without further ado let me hand over to François for a more detailed look into the results of 2015

**François-Xavier Roger, Nestlé SA, Chief Financial Officer**

**Slide – Title**

Good morning everybody and thank you Paul. As usual I will discuss the key points of our performance before we open the lines for Q&A.

**Slide – Profitable Growth in Challenging Markets**

Our environment in 2015, as you know, has been volatile, with 3 main developments:

- An economic slowdown in emerging markets;
- Deflation in large parts of the developed world,
- An erosion in commodity prices.

The last two items have translated into a lower level of pricing, especially in the latter part of the year, which we expect to continue throughout 2016.

In that context we are satisfied with our industry-leading organic growth of 4.2% which is made of a healthy balance of RIG (real internal growth) at 2.2%, and pricing at 2.0%.

We are particularly pleased with the acceleration of our RIG throughout the year – from 1.4% in Q2 to 2.7% in Q4.

And we are happy to report that we grew or maintained our market share in the majority of our categories and markets.

Group revenue reached CHF 88.8 billion in 2015. The strength of the Swiss Franc impacted sales by minus 7.4%.

Our organic sales growth of 4.2% has been achieved while we also improved our trading operating margin by 10 basis points in constant currencies, which is fully in line with our guidance and our expectations. We are satisfied with this profitable growth that has been achieved while we increased investment for the future in marketing, E-commerce, R&D, and NBE. At the same time, we have also absorbed the impact of exceptional events such as *Maggi* noodles in India.

The Group's free cash flow stands at 11.2% of sales and shows our capability to deliver industry-leading cash flow which has been achieved through disciplined Capex and working capital management.

Finally, our underlying earnings per share increased by 6.5% in constant currencies.

I will now go through some of the detail of our results, starting with the performance by geographies.

### **Slide – Broad-based Organic Growth in all Geographies**

Looking at our three Zones inclusive of our Globally-Managed businesses, growth was broad-based, with positive momentum across the board.

Americas finished with good organic growth of 5.8% and RIG was also solid, at 2.4%.

EMENA showed again an impressive resilience in a difficult environment. Organic growth was 3.5% and we are pleased with our RIG of 2.8%.

AOA improved in Q4 in both organic growth and RIG, finishing the year with 1.9% and 1.2% respectively.

As mentioned before, the noodles withdrawal in India has weighed on the Zone's performance.

### **Slide – Developed and Emerging Markets Growth**

Looking at our sales between Developed and Emerging markets:

In Developed Markets, which represents 57% of our total sales, we saw an encouraging acceleration year on year to 1.9% OG. We are pleased with this momentum, which is driven entirely by RIG, and which demonstrates our capacity to drive growth through innovation, even in difficult circumstances like moderate economic growth, population declines in some instances, and deflation.

Emerging Markets, which account for 43% of our sales, have seen some marginal deceleration to 7.0% OG. This represents a solid performance in the context of well-known economic challenges, particularly in large markets such as Brazil and Russia, and to a certain extent, China.

Now turning to the results by our reported Zones and Globally Managed Businesses and I will start with AMS.

### **Slide – Zone AMS**

Zone Americas achieved good organic growth of 5.5%, of which 1.6% was RIG.

Briefly touching on the macro environment for the Zone, it is fair to say that we have seen very little improvement in consumer sentiment in North America over the past year. Latin America on the other hand is mixed, but Brazil, Argentina and Venezuela are particularly challenging and will likely remain so in 2016.

In this context we were pleased to see growth in the Zone gaining momentum as the year progressed, and we made very encouraging market share gains in most markets in both North and Latin America.

In North America organic growth increased in 2015 by 120 basis points, largely led by the turnaround of our Frozen Food franchise.

The innovation and renovation behind *Lean Cuisine*, *Stouffers* and *Hot Pockets* have all been well received. Pizza has also seen accelerated momentum. Overall US Frozen Food franchise delivered positive organic growth in the second half of the year with mid-single-digit RIG.

Results so far in Frozen Food are justifying our portfolio management approach to put investment back into this business.

Moving on from Frozen Food:

*Coffee-mate* remains a growth driver in our portfolio. This billionaire brand brings constant renovation of flavours and packaging, and delivers accretive growth.

PetCare in North America continued to grow with strong performances from *Fancy Feast*, *Purina One* and cat litter, in spite of some pressure on the *Beneful* range.

Moving to Latin America we saw good performances in many countries in a volatile environment.

In spite of a recession in Brazil, our business achieved positive growth in both value and volume. *Nescafé* soluble coffee, *KitKat* and *Nesfit* biscuits were clear growth drivers. *Nescafé Dolce Gusto* is growing very strongly and our recent investment in local production will support our profitable growth in the future.

Mexico delivered good growth across the entire portfolio.

PetCare in South America continued its good growth momentum across the region, benefiting from expanded capacity in Argentina and Mexico.

The Zone's improved profitability, with 80 basis points of Trading Operating margin expansion to 19.4%, is based on strong delivery of operational efficiencies and reduced input costs, which enabled us to increase investment in consumer facing marketing support.

#### **Slide – Zone EMENA**

Turning now to Zone EMENA.

The Zone faces a diverse mix of external challenges, with deflation in Western Europe, currency devaluation and inflation in Eastern Europe, and political instability in the Middle East as well as in North Africa.

In that context, organic growth of 3.7%, including 2.5% RIG represents a positive result driven by volume.

The major part of the growth came from three product areas:

Firstly, *Nescafé Dolce Gusto*, has maintained double digit growth 10 years after its launch, and is close to being a billionaire brand in EMENA alone.

PetCare, was the second largest growth driver for the Zone, and we improved our market share in 19 out of our 20 largest markets. The growth is driven primarily by *Felix*, *ONE* and *Pro Plan*.

Lastly *Nescafé* Soluble Coffee accelerated its growth with good momentum in the Middle East and Eastern Europe, while premium offerings are doing well in Western Europe.

The other highlight was a solid performance in Frozen Pizza.

If we look now at the three geographic areas within EMENA:

In Western Europe, we experienced negative pricing but good RIG and positive organic growth overall, driven by innovation and premiumisation.

In Eastern Europe we are pleased with our performance in Russia, with double-digit organic growth and positive RIG in a very challenging context. Our moderate pricing strategy has proved to be effective, and enabled us to stay relevant to consumers and therefore to grow volumes and market share across categories.

The Middle East and North Africa have been affected by political instability - particularly in countries like Syria, Iraq, Yemen and Libya, which makes our performance with positive growth even more satisfactory. On a more positive note, Turkey has been a highlight with strong performances across our portfolio.

We are happy with the Zone's trading operating margin improvement of 50basis points. This came as a result of careful pricing and significant cost reductions which were partly reinvested in promotional and marketing activities to generate growth.

#### Slide – Zone AOA

Moving to Zone Asia, Oceania and Sub-Saharan Africa – or AOA:

We finished the year with positive organic growth of 0.5%, which represents a meaningful improvement in Q4.

The improvement in the Zone's performance at the end of the year was largely driven by a better performance in China. We have regularly flagged China's volatility and we believe this will continue throughout 2016. China has delivered positive organic growth both for the Zone and on a NIM basis including our globally managed businesses. Progress has been made with product re-formulations, launches and execution improvements with *Shark Wafer*, Coffee, RTD beverages and *Hsu Fu Chi*, where results have notably picked up.

Ambient Dairy as a category continues to be soft in China and *Yinlu* has weighed on the Zone's growth. As far as *Yinlu* is concerned we will pursue innovations better answering consumers' need on healthy lifestyles.

Moving to India. At Zone AOA level, the absence of *Maggi* noodles from the shelves for 8 months impacted organic growth by around 170 basis points and also impacted our trading operating margin by around 80 basis points. The good news is that production re-started in November and we are now back on the shelves.

All five of our factories are now up and running, although not at full capacity yet. Consumer acceptance is encouraging, and we are supporting the brand with marketing investment.

Please remember that we will continue to see negative year on year results for *Maggi* noodle India in H1 2016 and possibly to a lesser extent in the later part of the year.

Elsewhere in Emerging Markets within AOA, growth remained positive overall, but with a broad-based deceleration, reflecting the slowdown in many of the economies, like the Philippines and Sub-Saharan Africa.

Developed markets also delivered solid results, with another year of impressive mid-single-digit growth from Japan, driven by innovations in *KitKat* and *Nescafé*. Japan has been a real success story for Nestlé and is a great example of how to grow through innovation and premiumisation in a deflationary environment. Oceania also grew with a much improved performance.

The Zone's Trading Operating margin declined by 80 basis points to 18.4%, largely explained by the Indian noodle impact.

Moving now to our Globally Managed businesses, we will start with Waters.

#### **Slide – Nestlé Waters**

Waters has delivered another strong year of organic growth of 6.8%, driven entirely by RIG.

The trend towards healthier hydration is dynamic, driving robust category growth. Consumers are increasingly drinking water over CSDs and other sugary beverages.

Our balanced footprint and portfolio of international brands and leading local brands means that we are growing in all categories and geographies.

Our billionaire brand, *Nestlé Pure Life*, has seen double digit growth, whilst the International premium brands of *San Pellegrino* and *Perrier* are achieving high single digits growth. Major local brands such as *Buxton* in the UK, *Poland Spring* in the US and *Santa Maria* in Mexico are also making strong contributions.

In addition to the sustained topline momentum, Trading Operating margins have also increased significantly by +110 basis points to 10.8% thanks to volume leverage and operational cost discipline. Part of the savings made on input costs – especially in PET - have been re-invested behind the brands as we remain focused on growth.

Waters has seen an impressive development in the last couple of years. It is accretive to sales growth, margin improvement, ROIC and cash-flow generation for the Group.

As we look ahead to 2016 we are confident that RIG can sustain a good momentum but pricing will continue to be negligible.

Moving now to Nestlé Nutrition.

#### **Slide – Nestlé Nutrition**

Overall, Nutrition remained solid with 3.1% organic growth but this was a deceleration from previous years.

The lower growth reflects a combination of factors which include moderate pricing due to lower dairy costs, volatility in the Middle East and Russia, economic pressure in Brazil, and some moderation in category growth in Asia.

Our Infant formula and GUMs business saw solid growth. There was good momentum from China, although at a lower level than in previous years as the category softened. Wyeth Infant Nutrition remained the key driver via its premium brand *Illuma*, which benefitted from some reformulation towards the end of the year. Sales of *Illuma* now exceed CHF 600m in China alone despite only been launched 5 years ago.

Baby Food was also solid, with broad-based growth across the three Zones. Infant Cereals did well, with strong market share gains across all key markets, particularly in the US, China and Eastern Europe. Meals & Drinks also contributed positively.

Overall, Nutrition's improvement in profitability has been achieved alongside a meaningful increase in our investment behind the brands. Margin expansion of 110 basis points was driven by strict control of fixed costs, lower milk prices, less restructuring, and some portfolio management.

Moving now to our final reporting segment – Other Businesses, which as you know contains Nestlé Professional, *Nespresso*, Nestlé Health Science and Nestlé Skin Health.

#### **Slide – Other Businesses**

We achieved 5.3% organic growth and 3.7% RIG.

Nestlé Professional growth was solid, driven by emerging markets – particularly in AOA. The focus remains on the strategic platforms of Food and Beverage solutions.

Developed markets remained weak, especially in the US. As a reminder, the divestment of *Davigel* was completed in November.

Moving to *Nespresso*. Growth remains good with solid delivery across all regions. The growth rate has slowed in Europe, where the business is more mature and the base is larger, but this is being entirely offset by greater contributions from North America and Latin America.

Nestlé Health Science delivered another good year of accretive growth to the Group, driven by RIG.

Consumer Care which is the first part of our business enjoyed a solid growth. Our key brand, *Boost* grew over 20% and *Carnation Breakfast Essentials* also grew double digit in the United States. The roll-out of the *Meritene* range across Europe also supported growth.

Our second sub-division, Medical Nutrition, saw good results in the allergy portfolio, particularly in China.



Our third leg Novel Therapeutic Nutrition had a more challenging year with generic competition impacting *Lotronex*, and we have now sold *Lotronex*. Meanwhile we are optimistic about the long-term potential of our recent investments in Seres, a leading microbiome company, for which we have acquired the marketing rights for 4 of their main products outside of the United States.

Nestlé Skin Health achieved good double digit growth, also accretive to the Group, in spite of the rebate adjustment taken in the third quarter. Aesthetics & Corrective and Self-medication, with the *Cetaphil* brand, achieved very good growth, through a combination of innovation and geographic expansion.

However the Prescription business faced pressure from some generic entrants in the US and in Europe.

Overall, the Other Businesses segment has seen a margin contraction of -330 basis points, mainly impacted by Skin Health, which saw increased investment behind innovation and geographic expansion, as well as some impact from the pricing adjustment.

There is also a dilution impact from consolidation of Skin Health for a full year compared to just the second half of 2014.

Aside from Skin Health, *Nespresso* margins have experienced some pressure coming largely from foreign exchange, with its fixed cost base in Switzerland.

#### **Slide – Broad-based growth across product groups**

Next, we briefly turn to our performance across our product categories.

I will start with Powdered and Liquid beverages which is essentially Coffee. We finished the year with organic growth of 5.4%. RIG remained satisfactory at 3.1% but pricing softened in the latter part of the year.

Overall the good performance was driven by *Nescafé* soluble coffee, all of our coffee systems, and RTD beverages. The sustained double-digit growth momentum of *Nescafé Dolce Gusto* is particularly pleasing, as it gains further penetration in its original markets and as it continues to expand internationally. *Nescafé Dolce Gusto* has a leading presence in over 80 markets, which makes it the most global coffee system.

The margin decline of 180 basis points was mainly due to the impact of the strong Swiss Franc on *Nespresso* and higher input costs in green coffee, largely linked to our hedging policy. We also increased our marketing investments, particularly in AOA, to help strengthen our brands.

Next is Milk Products and Ice Cream. This product group, which includes Ambient Dairy, Ice Cream, and Creamers, delivered both positive growth and margin contribution from all three segments. Organic growth has decelerated to 1.7% which is due to reduced pricing coming essentially from lower dairy prices

The trading operating margin improvement of 180 basis points reflects not only reduced input costs across the segment, but also a favorable mix and optimized distribution in Ice cream. This increase has been achieved whilst also reinvesting back into the business.

Next is Prepared Dishes and Cooking Aids

Organic growth for the year was positive at 0.1%, with negative RIG. This business segment has obviously seen a major impact on RIG and OG from Indian Noodles which we discussed earlier.

Margins increased by 40 basis points, driven by Frozen Foods in the US, which benefitted from volume leverage, lower input costs, as well as better structural cost absorption.

Confectionery delivered good organic growth of 6.2%, driven largely by pricing in emerging markets like Brazil and Russia. China has seen a significant improvement year on year with *Hsu Fu Chi* and *Shark* wafer driven by innovation and renovation.

*KitKat*, our global billionaire brand in the category, sustained its good growth momentum in most countries and accelerated year on year with organic growth in high mid-single digits.

Margins in Confectionery improved 20 basis points this year, with a modest tailwind in Cost of Goods thanks to the pricing we have taken, which has also allowed us to step-up our marketing spend.

I will finish the category review with PetCare, which had another good year of organic growth accelerating to 5.9%, comprising solid 3.5% RIG.

Europe and Latin America continue to be growth drivers in the category and are major success stories for the Group. As you know we have added capacity in both Argentina and Mexico this year which will help us to sustain our momentum in 2016.

PetCare margins improved 100 basis points driven by positive pricing, along with favourable input costs thanks to a decline in corn and soybean prices.

#### **Slide – Cost benefits reinvested for growth**

Looking now at trading operating margin.

As you can see from the chart, we increased margins by 10 basis points in constant currencies.

Foreign exchange had a 30 basis points negative impact, mainly coming from the appreciation of the Swiss Franc. This has resulted in our reported operating profit margin finishing down minus 20 basis points at 15.1%.

At Group level, the impact from *Maggi* noodles for full year organic growth is around 30 basis points and on trading operating margin it lies between 10-20 basis points

Let's look at our margin drivers. Cost of Goods have decreased materially this year, representing a 160 basis points improvement.

The full year impact of the consolidation of Skin Health contributed to around 20 basis points of this improvement, as Skin Health brings a different P&L structure with lower Cost of Goods but higher SG&A.

Lower input costs have also helped, although only modestly, the decrease of our basket of commodities represented a saving of around CHF 300m in 2015 vs 2014.

This benefit from commodity prices might be lower than some of you have been expecting. But as you know there is a timing difference between the time we buy commodities and the P&L impact, and hedging may also delay the impact of market pricing in our P&L.

The rest of the improvement in Cost of Goods mainly reflects the benefit of price increases we took, combined with favourable product mix and operational efficiencies.

Then as you can see from the chart, we have re-invested these Cost of Goods savings back into the business with a significant step-up in marketing and brand support. In total our increase in marketing & admin spend represents an investment of 170 basis points.

Approximately a third of this marketing & admin increase actually relates to the full year impact of consolidating Skin Health.

The rest of the increase which is around 100 basis points, comes from a 12% increase in consumer-facing marketing spend in constant currencies, with a specific focus on digital.

R&D also increased slightly, finishing at almost 1.7 billion for 2015.

And finally, the decrease in Net Other Trading Expenses of 20 basis points comes from lower litigation and restructuring expenses.

#### **Slide – Underlying EPS +6.5% in constant currency**

Next is a summary of our operating profit and earnings.

Net other expenses have fallen because 2014 included a CHF 1.9 billion goodwill impairment.

Our underlying tax rate is 27.6% in-line with our guidance slightly higher than we had the year before.

Income from Associates and JVs has reduced as we recorded the one-off income from the *L'Oréal* and *Galderma* transactions in 2014. We now have a lower stake in *L'Oréal* which means that we now receive a proportionately lower share of their profits.

Our underlying EPS increased 6.5% in constant currencies, fully in line with our guidance and expectations.

#### **Slide – Consistent industry-leading free cash flow generation**

The Group's free cash flow remained strong at 9.9 billion. Although this is lower than in 2014, when we booked the proceeds from the partial disposal of the *L'Oréal* stake amounting to 4 billion.

Stripping this out, you can see that we have increased our free cash flow as a % of sales from 10.9% to 11.2% in 2015.

Now let's look at the drivers of this improvement in cash flow generation starting with working capital.

**Slide – Continued focus on working capital**

We have been putting a lot of focus on Working Capital in recent years, with progress in both inventories and payables enabling us to deliver a working capital cash inflow of close to CHF 1 billion in 2015.

As a percentage of sales, based on a quarterly average, not only on the basis of the year end value, you can see that we have made strong, sequential progress in reducing total working capital by almost half over the past three years, from 8.5% in 2012 to 4.7% in 2015.

We can do more and we will continue improving on this front.

**Slide – Capex discipline while supporting growth**

We have also remained disciplined on Capex, broadly holding at the same level as last year, with absolute spend of 3.90 billion at 4.4% of sales.

This is consistent with our strategy to remain disciplined with our Capex, while supporting growth.

In 2015, as examples, we have opened our third *Nespresso* factory in Switzerland. We have inaugurated our first *Nescafé Dolce Gusto* factory outside of Europe in Brazil. We have opened new PetCare factories in Poland and Mexico to support the strong demand in those regions. And we have upgraded our product technology centre for Frozen Food in the US.

**Slide – CHF 13.4 billion cash returns to shareholders**

Moving to net debt. The Group's net debt increased by CHF 3.1 billion from CHF 12.30 billion to CHF 15.4 billion during the year.

The increase was driven by our CHF 8 billion share buyback program over 2 years, which was completed in December, with CHF 6.5 billion spent in 2015.

Our dividend amounted to CHF 6.9 billion this year, increasing again over last year, as has been the case over the last 20 years.

These two items illustrate our commitment for returning cash to shareholders whilst maintaining the appropriate capital structure, we have returned in total to our shareholders CHF13.4 billion in total during the year 2015.

**Slide – Summary**

In summary. We are satisfied with our organic growth for the year of 4.2% in the context of a challenging trading environment.

In particular we are happy with our RIG, which is showing sequential acceleration and has allowed us to gain and maintain market share across the majority of our categories and markets.

We have grown our margins in constant currencies, in line with our guidance, whilst absorbing some significant headwinds which shows the strength and the benefits of our diversified portfolio, whilst materially raising our spend in consumer facing marketing.

Our free cash flow generation has remained strong, thanks to an improvement in working capital and thanks to a continued discipline on capital expenditure.

And once again we have raised our dividend, maintaining this track record of increasing it in each of the past 20 years, even with the regular strengthening of the Swiss Franc.

#### **Slide – Guidance 2016**

Finally, Paul has already shared the guidance for 2016 and I won't repeat it. I will emphasize though the point that the current environment allows for some limited pricing in developed markets.

I would also like to highlight that the delivery of our growth in 2016 may be slightly more uneven from quarter to quarter than you are used to. Especially Q1 will be impacted by unfavourable comps from India mainly, and growth is expected to be soft as a consequence in Q1.

With that, I have concluded our summary of the financials in 2015 and will hand back to Paul.

**Paul Bulcke, Nestlé SA, Chief Executive Officer**

#### **Slide – Title**

Okay. Thank you, François. Well, ladies and gentlemen, that was 2015. Let us now look and talk about 2016, and as I mentioned before, I don't think 2016 is going to be much different from 2015. It is going to have the same uncertainty, the same challenges like 2015 but this is not new. There I'd say we have seen that before. We have been there before, and it is exactly in such an environment it's even more important to keep disciplined execution behind the compelling strategy. Our strategy of Nutrition, Health, and Wellness, a strategy that really differentiates us as a company and that brings us the base for profitable growth.

In that sense and even more so in 2016, firstly it's important to keep focus on what works, keep focus on the businesses and the brands that are performing well. Secondly, that we continue to support the turnaround of businesses and brands that we believe in. Brands with opportunity which are, or were, challenged. Thirdly, that we combine this with embracing and looking for new opportunities like digital and e-commerce. And lastly but definitely not the least, that we keep being sharp on cost, so that we can put the necessary resources behind what really drives profitable growth for the future.

#### **Slide – Continue building our brands**

Let me first go to the first point, keeping supporting the brands that are doing well. We have many strong brands. It's about permanently maintaining the relevance of these brands through innovation, through renovation, through brand-support communication, distribution and even also expanding them geographically where it makes sense.

#### **Slide – Continue building our brands - Purina**

*Purina* is an example, a very good example, of that. *Purina* has worked so well for us in its home market the U.S.A. and we have successfully rolled out that brand and portfolio strategy

that works well, in Europe, in Latin America and in all other parts of the world, allowing us to gain market share almost everywhere.

**Slide – Continue building our brands - KitKat**

Or *KitKat* an eighty year old brand that is growing almost double-digit still and that allows consumers to have a break in more than 80 countries around the world.

**Slide – Continue building our brands - Nescafé**

Then we have *Nescafé* that continues to reinvent itself, now with *Nescafé Dolce Gusto*. Non-existent that brand 10 years ago, and today an over CHF 1 billion business, present in around 80 countries and more countries to come.

**Slide – A unique position in coffee**

Speaking about Coffee, there is a lot happening in the Coffee world. Coffee is important to us, you know that. It has been a very strong, important part of our company for over 75 years now, and we are uniquely positioned in this market. We have two very strong brands, *Nescafé* and *Nespresso*, each with a very clear and distinctive strategy in positioning. With *Nescafé* and *Nespresso*, we are covering the different consumer occasions and segments from mainstream to premium to luxury – accessible luxury, I would say. With *Nescafé* and *Nespresso*, we have been inventing and reinventing the coffee category. We have the intention to continue doing so in the future and lead in this fascinating competitive growth category. We have the plans in place to actually accelerate here.

**Slide – USA: frozen food**

I spoke also about categories that we believe in, categories with lot of potential but which are perhaps challenged, brands which have to connect or reconnect even with the changing – fast changing consumer expectations.

Our Frozen Food business in USA is such a good example for that. We are turning this business around with promising first signs. We have re-launched our brand, *Lean Cuisine*. We have re-launched *Stouffer's*, *Hot Pockets* and *DiGiorno*. We have adapted the entire marketing mix and especially the products themselves to be able to respond to the consumer expectations for organic, natural, low fat, low sugar, tasty products, high protein, *et cetera*.

This strategy is bring consumers back to the category. It's bringing back to our brands these consumers in a very remarkable way.

**Slide – China: growth market**

The same works for us in China. We have invested substantially in China over the last years. And the economy in China has grown slower the last few years. We know that. But GDP remains robust and is moving from investment-driven expansion towards private consumption. That is what touches us. It is clear then that China has been and will remain an important growth driver for us. Mind you, Nestlé has never stopped growing in China. Even in the last couple of years of slow growth, Nestlé always has grown in China. Looking forward, we are confident in our ability to accelerate our growth progressively and sustainably.

We have a very solid structure in China. That is led by experienced and motivated teams combined with a strong product and brand portfolio of local and global brands together. Here, again, consumer expectations have been changing. I can tell you, they have been changing very fast. And also, here, we are connecting our brands with these expectations. Also, here, again, clear signs of promising growth acceleration.

Acceleration is already a fact in a number of our categories. In Confectionery, for example, we have *Hsu Fu Chi* and in Coffee, we have new launches in *Nescafé* soluble coffee and ready-to-drink. Also for this year, there's a robust innovation pipeline coming on stream for *Yinlu*.

It is also about understanding the importance of route-to-market in China to cover the entire consumer landscape from PPP to mainstream to premium and adapting to the new channels offline and online.

Talking about online channels in China, e-commerce is of extreme importance and we have heavily engaged in this. Already 50%, 50% of our sales in PetCare goes via e-commerce in China, 30% in Coffee, 30% also Infant Formulas. Last year, for example, alone, our e-commerce business in China almost doubled, and this will remain a key growth driver also in the years to come.

#### **Slide – Digital engagement**

That actually brings me then in general to digital. It's my third point; to embrace the new opportunities that are there. In 2012, I have been very explicit about our commitment as a company to digital. I made it one of our priorities on group corporate level for this company.

Since then we have moved fast and we have embraced digital in very different ways and dimensions. First, in social media where we have attracted and built digital talent throughout the whole organization, specifically in listening and engaging in social media, conversations with consumers. And we have driven out throughout the whole organization and many, many markets.

We have done the same with e-commerce. We already have a longstanding in-house expertise via *Nespresso*. The business model of *Nespresso* is actually e-based. We deployed one group-wide e-business strategy that embraces digital marketing and e-commerce at the same time. It is inducing permanent learning and execution in this fast-moving area, everywhere in our company. We have rolled out this strategy together with clear roadmaps in already more than 20 of our most important markets with concrete structures and engagements. We are working with our partners such as retailers as well as pure players like Amazon, Alibaba and others.

For us, if we were to consider e-commerce as such in Nestlé as a market, it would already be a top five market in sales for us. So, it is substantial, and it is important, and it is accelerating in growth materially. It is going fast, but there is so much upside. Our brand strength offline is not yet truly reflected online. So, we have a motivation there.

#### **Slide – Continuous cost awareness**

Now an extremely important point. We strongly focus on costs, operational and structural costs, or should I say resources actually. To be able to put the resources behind the things that matter, the things that drive, create profitable growth. We, at Nestlé, have always focused on cost on a continuous basis, hence our Nestlé Continuous Excellence (NCE).

Nestlé Continuous Excellence involves, now already for many years, all employees, all 335,000 of them, constantly looking at cost, looking for efficiency in their immediate environment, driving waste out, going for zero. It is a permanent effort that has been instilled into our minds and our organization as such. Yet, considering what is happening out there, you want to intensify that. Nestlé Continuous Excellence is more relevant than ever.

This is also where Nestlé Business Excellence (NBE) comes in. Nestlé's backline set up which combines Nestlé Continuous Excellence efforts and structures and mindsets with GLOBE and our shared services. How can we better leverage our scale and skills? How can we standardize? How can we share? How can we, in the end, simplify even more and service better the general demand I mentioned, the frontline of this company?

I have high expectations on the constant delivering of these initiatives to enable us to have the necessary resources to continue growing at the higher end of the market and to continue to invest for the future like what we have done already last year and we'll continue doing that this year and in the future.

#### **Slide – Title 150 years of Good Food, Good Life**

Ladies and gentlemen, to sum up, this is fundamental logic of disciplined execution behind our strategy of Nutrition, Health and Wellness, combined with, first, supporting what works. Second, turning around what is challenged but what matters. Third, embracing new opportunities. And finally, relentless continuous focus on cost is what actually, at the end, delivers consistent profitable growth over time that compounds.

I personally believe so much in strength of alignment of an organization like ours. I believe in the strength of consistency in an organization, in a company like Nestlé, especially in turbulent times. Turbulent times which, in spite of all, offer so many opportunities, it is consistently delivering that we focus on. And again, that was we have done over 150 years. Indeed, in 2016, Nestlé celebrates its 150 years of existence. It's a year to celebrate. 2016 is a year to celebrate and 150 years stands for 150 years of passion for Nutrition, built on quality, quality that drives trust. It is 150 years of consistent performance.

Well, with that, I really thank you very much for your attention and, Robin, I give it over to you for our questions

#### **Question-and-Answer Session**

**Questions on; US Frozen Food business and PetCare  
R&D expenditure and Marketing costs in 2016**

**James Targett, Berenberg:**

Good morning, everyone. A couple of questions from me. Firstly, just two quick ones on the



U.S. business. You mentioned that the mid-single-digit growth in the Frozen category. I'm just wondering if you could say, is your portfolio renovation complete in Frozen, are all the new launches in and trading well or is there are still more to come in the first half of next year? And then also in the U.S. just in terms of PetCare, particularly in the *Beneful* brand, how did that exit the year in terms of trading and I know your market shares back to where they were?

And the second question is on margins, you mentioned the margins impacted by a number of marketing and R&D expenditures. Just in terms of the breakdown, is there anything which is in a non-recurring or brought forward from 2016 just thinking how we should consider your marketing cost going forward. Thanks.

**Paul Bulcke:**

Maybe the first part of the U.S. business, the Frozen business is not fully rolled out yet so there's more to come. This is going to be continuous. So, we have the *Lean Cuisine* and we have done already also *Stouffer's*. There's, I think, in *Hot Pockets* more to come. And *DiGiorno* is going to be a permanent innovation pipeline. So, there we are growing back. The category is growing back. We are growing faster than the category is back. So, we're gaining market share but I truly believe this is a permanent innovation drive that we have to have, not to disconnect and the consumers move on.

So, I think there were some learnings that you have to keep really very focused and on the edge of innovation in these categories. I remind you, this is an important category for us and I'm personally and we at Nestlé are true believers in this category, so we are pulling resources and innovation behind that.

PetCare, *Beneful*. *Beneful* was affected by a negative, unfounded campaign. We know that but we have to connect with consumers and that is all built on trust, so we have to re-engage. Are we back where we were? It had a material impact, I can say. *Beneful* is an important brand for us. It is a very important brand for us, and trust matters. So, the product had all ingredients for the trust, but perception was not there for them because of an unfounded campaign.

Now, we're re-engaging. I think we did all the right steps there. Are we back 100% where we are? No, but we are moving in that direction. Our objective was always to come stronger out of crisis than when we went into it. Same in *Beneful*. Same in *Maggi* noodles in India where we really want to get out stronger than we went into it. And that is quite an ambition because we were very strong in the case of *Beneful* and in the case of India. So, not back, but we're doing everything to get back, and we have the strong belief we will get back.

Marketing and R&D, and I believe that the increase you saw last year, goes on top of increases the years before. So, there is a trend of deeper and high commitment first of all to R&D. I truly believe that Nutrition, Health and Wellness, that fundamental agenda that we have as a company, is linked with knowledge. It's linked to having understanding of how nutrients interact with the human body. It's linked with how we drive calories out of our broader portfolio, less sugar, less salt. Let's solve how we drive this, with the newest insight. So, this is linked with deeper research and development. The platforms, like Nestlé Health

Science or Skin Health, are intrinsically linked with deeper knowledge. And it is a competitive advantage to have that, to invest in that, and to connect with these newer insights.

Then we have the same logic for marketing spend, engaging, re-engaging, connecting with the consumer. I know that digital, and we're deeply engaged there, has higher return on investment there, I would say. If you do it right and you're in the front line there, and we are.

At the same time, our deeper innovation, more present connection with consumers and talking about Nutrition, is more communication intense, and I feel that's where we have to invest. There is investment and differentiation of our products and brand portfolios and [talking] to the consumer.

And the third part is geographic expansion. We are expanding quite a few products. And I have mentioned the strong brands we have, that we believe we have to focus and extend them worldwide.

*KitKat* is a fantastic example for that. It is a very strong, over 75-year-old brand, yet there is so much potential in the markets where it is, because it is growing very fast and even in the UK where it was born. But there's so much potential to drive these brands out in more geographies, like we have done in Brazil. It's going in many other markets. So, that is, I would say, brand support intensive. It's the right investment and so I see that going up in the future. And that's why we speak about really freeing up the resources from where they should not be and putting them where they should be.

<b>Questions on;</b>	<b>Marketing and admin impact on margins</b>
	<b>One-off impact from Skin Health</b>

**Eileen Khoo, Morgan Stanley:**

Hi. Morning, gentlemen. I have four questions from me. I just want a bit more clarity on the margins. You reported cost benefit of 160 bps for the full year but marketing and admin was more like 190 bps. So, does that mean you invested more than the benefit you saw from commodity cost? And if so, does this reflect pressures of the market resulting from local competition? Should we expect this for 2016 as well?

And that was – can you just, if possible, quantify the one-off impact this year from Skin Health, Indian noodles, etc on your group margin? And then a very quick follow-up if I can – but I'll stop at that.

**François-Xavier Roger:**

Okay. For the one-off, as I mentioned, Indian noodles has had an impact of 170 basis point on the top line for AOA and 80 basis points impact on the bottom line for AOA. And at group level, at organic growth level, it was a 30 basis points impact, 15 to 20 on the bottom line. Nestlé Skin Health, we indicated I think last quarter, it was a Q3 event, that the amount of the adjustment was around CHF 70 million to CHF 75 million.

As far as the reinvestment that we did, so as I mentioned earlier, we benefitted significantly from pricing actually more than commodities. The commodity tailwind that we had was around CHF 300 million in the year, which is probably not as much as many of you might have expected, linked to, as I mentioned earlier, the fact that there is a time delay between market prices and the time we record it in our P&L, first of all, because we have a few weeks of inventory. And second, we are taking some position in terms of hedging.

So, the bulk of the tailwind that we got came from pricing, the fact that we raised our prices. Commodity participated into it as well as the benefit that we had from the full year consolidation of Skin Health, which marginally increased our gross margin by around 20 basis points. Likewise, it had a negative impact on our spending because we had about 30 basis points of additional spending due to the full year consolidation impact of Skin Health.

**Paul Bulcke:**

Well, it's important to add something here. Our increased brand support, PFME and investment in research is not, oh, we have a tailwind, let's use the money. This is something we drive proactively. Yes, indeed, we had some softer raw material prices, commodity prices. I must say that I feel that you see much more than actually our basket had, because every company has a basket, but we had [some] though and so welcome.

But it is because of Nestlé Continuous Excellence driving cost out in our operations. We have this Nestlé Continuous Excellence, which we have been commenting on much more explicitly over the last years, where we have over CHF 1 billion savings a year. That is actually what drives continuous resource allocation where it matters. And structural cost is something that we go after. So, it is that combination of creating the right resources, too.

Then again, if we have added-value products because of our research because of arguments, then also, the margin should allow you to fuel the future too. That's also the pricing then. So, it's a combination. It's not just one year one-off of some additional resource that we put in. That's linked with my first answer that this is an intention that I don't see abating in the next years. It is our intention to drive our Nutrition, Health, and Wellness agenda, proactively, we've added science and knowledge and added-value products.

<b>Questions on;</b>	<b>Organic growth outlook for 2016</b> <b>Re-shaping portfolio</b>
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**Jean-Philippe Bertschy, Vontobel:**

Good morning, gentlemen. The first one would be on your organic growth outlook for the current year. Why are you so cautious when we consider that last year, you had the impact from *Yinlu*, *Maggi* noodles, the one-offs of Nestlé Skin Health? U.S. Frozen was still weak in H1 and you had as well a negative impact of the price increase on the Confectionery business. That would be the first one.

And the second one, you are talking about strong brands, Paul. I guess, you have some weaker brands as well, and why are you not being more aggressive in reshaping your

portfolio, thinking, once again, of your U.S. Confectionery, for instance, where you're like a distant number four? Thanks.

**Paul Bulcke:**

Well I like to hear that we are cautious because sometimes I hear that we are not cautious and too ambitious and not linked to reality. But look, what matters is actually RIG and that came back that's true, but we do see softer pricing. And that is all linked with whole years of lap and fade in one and another.

Looking at softer pricing, looking at the environment out there, growth is still actually, subdued in certain areas, although, we grow everywhere, but it's going to be slower than we were we used to a few years ago. This brings us to say, we're going to see more or less in line with last year and I think that's wise to do.

Then you say the strong brands, we have soft brands. Again, continuous portfolio management. We're not going to jump on the scene and say, we're going to get rid of 200, 300, 500, 600 brands. We do have this permanent looking after brands and we are not getting rid of brands. We have done quite a lot of major things like *Davigel* and a few others, that's quite substantial if you add it all up over time, and we're going to continue doing that.

What we're going to do, too, is in resource allocation, certain brands that are really not delivering or aren't there, well we have an extreme strong SKU management. Again, last year, we have been driving out SKUs. And a few years ago, we had over 100,000 SKUs, and we're getting to 70,000 SKUs. That's a lot. That with renovation on top. So, it is actually doubling the counting. That is linked with brands. So, we have been fading out certain brands. And then we're also stopping to resourcing certain brands that we don't believe in for the future, that are still okay, but we don't resource them anymore. So, we see more and more focus on the brands that matter.

You may remember, a few years ago, we said resource allocation. That was one of the priorities. How are we going to really look at having the resources where it matters? The return on resources is a concept that we are building in to the minds but also in the structures. Portfolio management is all about resource allocation. How much R&D we're going to put in a certain category or in a certain category in a market or in a certain brand? How much PFME we're going to put behind it? How much talent? Where do we put the best talents we have? That is all embedded in our mindset and in our tools for the portfolio management.

So, your question is totally, totally valid. Soft or not performing brands with no real promise, we disengage and see if we keep them because we still enjoy them to a certain extent, or we fade them out. And that is what we're doing on a continuous basis.

<b>Questions on;</b>	<b>Organic growth slow down Swiss business environment</b>
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**Ralph Atkins, Financial Times:**

Two questions. Firstly, the organic growth you've reported this year, for 2015 of 4.2% slowdown from the previous year. You're expecting similar growth this year. But compared to the yardstick we've used before, 5% to 6% is obviously a slowdown. Now, your 150<sup>th</sup> anniversary, are we now entering a period of slower growth for Nestlé going forwards?

And my second question on the business environment in Switzerland, a number of referendum this weekend, two particularly interest you. One on financial speculation on agricultural products, another one, the enforcement initiative on foreign criminals, both could affect international companies such as yourself. Do you see a deterioration in Swiss business trading conditions?

Thank you.

**Paul Bulcke:**

Well, first of all in the growth, the slowdown and how does it compare to this medium long term ambition of 5% to 6%, and now 150 years, are we closing a book of 5% to 6% and going then to 3% ? No, because also in 150 years passed, we had good and less good environments to live in. We are very pragmatic and realistic company.

If you see the last years, and we still have this 5% to 6% there as a medium long term thing that we put in our sight line there, but there is a sense of realism. In the last years, there's a softer growth environment in general, and there is low pricing. And pricing is part of it. So what we aim at is to be at the higher end of our industry, to be leading our categories, to have the initiative of these categories and new dimensions and innovation that we are at the top of mind of our consumers and where we want to be.

So that is what matters and I think there, again, what we project for. 2016, as we said, there's going to be, more or less, the same turbulences and uncertainty as last year with opportunities, too, like last year. So, we see it pretty much in line with, what is basically, an expression of realism.

150 years in front of us. What we do, though, is build the platforms for profitable growth for these 150 years and actually that is of extreme importance. We are investing heavily, also last year although it was something that we didn't enjoy last year yet, but we can do that because we did it before or somebody else did it before for us. That is how this medium-long-term view of Nestlé is so strong and so embedded in our culture, to not let the short-term dimension, condition our minds for the long term. We have intensity in the day to day, but always we have a medium-term and long-term perspective.

Business environment in Switzerland, well, a year ago, we were sitting here and we had the Swiss franc that was again moving upwards. That was also uncertainty, and is that going to affect us? As you see, it has affected us in quite a few things of our P&L on the aesthetics. You just think over the last five years. Last year was 7.4% Forex impact. The last five years it has had an impact of 30%. In the last 10 years, the Swiss franc's strength has an impact of 50% on our sales. We would have something like CHF 135 billion if we would have consolidated. That's aesthetics at the end of the day. It has an impact to a certain level because of some structures and mixes because the Swiss franc is really a part of our cost base here. Then, again, I leave it to the Swiss people and their wisdom to understand that

the success of Switzerland is based on this openness and is linked with this permanent understanding of what the state of the country is, and I fundamentally believe that's going to be the case again.

<b>Questions on;</b>	<b>Cost savings in 2016</b> <b>Trading operating profit</b>
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**Adam Spielman, Citibank:**

Thank you for my questions. I have two, please. First one is a simple one, and it's on your last point, Mr. Bulcke. Can you tell us will the cost savings in 2016 be greater than they were in 2015, and is there any way you can quantify that?

And the second question is perhaps a more technical one, more to do with accounting. When I look at trading operating profit and trading operating margin, there's a significant miss with what I was expecting, but when I look at adjusted operating profit, which is what you use for adjusted EPS, it was more or less in line. And so the question is, can you tell us, can you explain in simple terms how we get from trading operating profit and what the adjustments were in it that, in some sense, depressed trading operating profit?

**Paul Bulcke:**

In simple terms then I will leave that then to you [François-Xavier Roger]

Will the cost saving be more in 2016 than 2015? The organization is geared towards that. There are always upsides, and there's always cost-saving potential. Nestlé Continuous Excellence is a model that permanently drives cost out or waste out of the system. Social structure like companies, like thermodynamics, it's entropy. There's always new cost-saving potential. And we have been communicating in the past, these figures of over CHF 1 billion. Well, there's over CHF 1 billion a year. We're looking at 3%, 4% of our cost base to be driven out permanently.

What do we do with these savings? Well, we have a little bit of a rule. First of all, some of that should help us to drive margin expansion that is logical, be able to enjoy at the end of the day part of that. But it is also linked to be more competitive in the market, which is to compete versus competition. And it is also to do what we said before, support behind the brands and R&D platforms. So we need more of that for the future because I do believe in the differentiating power of these investments, to be successful in the future. We're looking for more of it.

So, that's where we are. We are building the structures for that, too. You see we have quite a few initiatives going in that direction and getting more intense on it.

**François-Xavier Roger:**

Thank you, Adam, for your question. I will try to answer it in a simple way. I think the trading operating profit, especially at constant exchange rate is a good reflection of the underlying performance of our business on the bottom line. After that, we have a certain number of

exceptional items which are adjusted down to underlying EPS. And I will mention a few of them and especially their behavior in 2016. We have litigation cost, and we had less of them in 2015 than in the past. We have restructuring cost, and we had less of them in 2015 as well.

We have impairment for goodwill. All of these are obviously non-trading item and relatively exceptional items. We had less impairment of goodwill because we did an impairment for our DSD business in the U.S. which was quite significant in 2015. And we had less losses as well on disposal of businesses. We had a few in 2015 but we had more in 2016.

So, that's what makes the difference between trading operating profit and EPS. And these are our adjustment. Obviously, we will be more than happy to discuss with you, and the IR Department can provide you with all the details you need on that question.

<b>Questions on;</b>	<b>Future share buyback M&amp;A strategy</b>
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**Jon Cox, Kepler:**

Yes. Good morning, guys. A very good job on the free cash flow and operating cash flow, and you're saying that the further improvements to come on working capital. So, as a result, we could assume probably CHF 10 billion plus free cash flow for 2016. But looking at your net debt, you're clearly now below 1 times net debt to EBITDA. You said you don't need to go below 1 times because you don't necessarily want to get back to an AAA credit rating. So, my question is I was surprised that there wasn't a buyback announcement today. I wondered if you could just comment on that.

And then sort of follow-up to that question, should we expect more M&A from Nestlé going forward? Maybe a part of your business is slowing down, and you think well maybe you should go out and buy faster-growing businesses to help you. Thank you.

**Paul Bulcke:**

Of course. Thank you for saying we did a good job. It's good to hear. We're proud of this free cash flow because at the end of the day, what matters is cash. And working capital, consistent good job there. Is there more to come? Well, we're still focusing on the elements that drive this, like SKU management, simplifying your organization, focusing on fewer but bigger, that all helps. And it is something that glues an organization together and focus, working capital, that's true. Maybe you [François-Xavier Roger] can discuss a little bit or give a little bit more light on that, too. So, it is a permanent objective. I think there's still potential. I wouldn't like to back off there.

On M&A, to simplify, we have priorities. The first thing is resources behind our future success. That is built, again, in our growth platforms, R&D, brand support, innovation, renovation and talent - structures that are relevant. That's where we invest first. Then capital investment, definitely, although with strong discipline. Second is to honour our shareholders and that is dividend.

You have seen again, we are earning in a basket of different monies and not all in Swiss franc. And we're paying Swiss franc dividend, so that's quite noble. But dividend is very important to us. That is actually rewarding in the best way our shareholders.

Then M&A is always part of it, and we say bolt-on. So, we all did scouting and seeing – we have seen also during the last year, we had M&A activity that is relevant to our strategy. So, we have always foreseen bolt-on acquisitions and then share buybacks is something, it is amazing how fast you all get used to this. This is not a normal part of our landscape. This is exceptional and do not believe this is now the case but I leave it to you [FXR] to comment more on it.

**François-Xavier Roger:**

I can just add one thing that over the last 10 years, Nestlé returned to shareholders CHF 105 billion, which shows our real commitment for shareholder remuneration and the fact that we value it. 58% of it went through dividends and 42% were share buybacks. So, we will not hesitate to do share buyback whenever relevant. But we stick as well to our rating of AA. And so we need to strike permanently the right balance between providing an attractive return to our shareholders and maintaining a strong balance sheet which we managed to do.

And, Jon, I just want to add one comment as well. Indeed, I think that a lot of work has been done over the last couple of years in terms of cash flow generation and more specifically on working capital. I think it's a very, very good progress that has been made, reducing the working capital as a percentage of sales by half over the two years. We can do more especially with inventory and payables and the entire organization is really committed to it. So, you'll certainly see more progress in that front.

<b>Questions on;</b>	<b>Margin improvement in 2016 Pricing</b>
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**Celine Pannuti, JPMorgan:**

Yes. Good morning. My first question is to come back on margin. Two parts. First, you mentioned the *Maggi* hit and I think there was, as well, a hit from others. Is it fair to expect that that will continue to impact H1? And my second part of that question is that, Paul, I think you said "relentless and consistent focus on cost." How much feasibility can that give us in order to look at 2016 margin? You mentioned margin up on constant currency, but as I look at 2015, they were down. What kind of comfort can we get about margin improvement in real money in 2016?

And then my second question is on pricing. You are more bearish it seems on overall the pricing weakening, and clearly, there is less inflation in the system. But can you maybe give us some areas of weakness that you foresee for 2016?

Thank you.

**Paul Bulcke:**



Well, margin, I can tell you it is true that the *Maggi* case and also *Beneful*, these are material things. So, we don't use them too much as because it's also part of doing business in a company that has a presence worldwide and is open to these things, it's part of our reality. Now, that was a coincidence of quite two big ones and some other small ones. But 2016, I don't expect any of that. But still, we have to see. We're not going to get into the details there and say one and a half. But it has been material for us last year, so your comparative base - but it only is going to work from the second half of this year, definitely on the growth.

This relentless and how much is going to be for this year, we say an increase in margin, and that's continuous increase in margin. If you see the history of Nestlé, I don't like for an organization like ours to be disruptive. We could also show off for a year and then correct the year after, we like this continuous building up of this margin. And I believe that has to be combined with higher investment for the future. So, I feel it's going to be pretty much in line with what we have shown in constant currencies over the last years.

Pricing subdued, well, this is basically linked with the fact that what we see in our pipeline, in our raw material base, in our hypothesis that we don't see that coming up as a need, first, of pricing because of that. That can change and that can change very fast.

Secondly, if you see, especially in certain parts of the world like Europe, Western Europe, pricing is not like part of the discussion and we see our customers, and we are in permanent contact with them. And price increases is like not part of the discussion we have with them. And so we have to be aware of that. Hence, a very, very strong focus on cost and really going for the brands that matter.

<b>Questions on;</b>	<b>Working Capital Ice Cream Joint Venture in Europe</b>
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**Alain-Sebastian Oberhuber, MainFirst:**

Good morning, everybody. I have two questions. The first question is regarding working capital. You showed us the reduction nicely. What does Nestlé think where this reduction working capital to sales should go without really harming the business on organic growth?

The second question is regarding Ice Cream. You announced this JV with R&R in Europe. Could you give us an update where we currently stand? And in general, I have a question on this Ice Cream business in Europe with Nestlé. Given that you have really nice brand, why was Nestlé not able to get a decent margin in Ice Cream Europe.

**Paul Bulcke:**

Working capital outlook, how far can you drive that without harming the business? Maybe you [FXR] answer that because I believe that we have been in discussion sometime on this. Some other companies have negative working capital and all. Watch out. We don't do certain practices like aggressive factoring and all because it costs you more than what have cost us to have it. And it is always pressuring your margins. But anyhow, I leave that to you. Mind you, still, we have our missions in working capital, though. How far do you want to drive it?

**François-Xavier Roger:**

Working capital, everything we do is extremely healthy, which mean that it will not hit the business and its growth at all. So, as I said, over the last couple of years, the main improvement has been with inventory management and payables. There is little to do in receivables, especially, so that it is more and more regulated anyway in many countries. So we have less freedom there.

In inventory, it is really about decreasing the number of SKUs. By the way, over the last three to four years, we divided the number of SKUs we have by almost half, so which gives you an example. Did it hurt our growth? Not at all, because, usually, you are taking off the tail of our SKUs to start with.

And payables, we've reached a certain number of agreements with some of our suppliers which are usually win-win situation because we are trading off a certain number of benefits as well for them, and we take some benefits out of it.

But at no time at all, we have entered into any specific transaction that would have hurt our growth in order to improve our working capital and cash. This is not the objective at all. It's not one or the other. We are targeting both gross and working capital and cash improvement.

**Paul Bulcke:**

On Ice Cream and our joint venture we are building up. First of all, this is still something in the process. I feel there's also approvals to get. We are in a permanent discussions with them to do the setup, and I think that's going to be later in the year. But we really can't announce that we are there. But I must say there is affinity, there is affinity in purpose, affinity in proposal, affinity on the whole. And then seeing the strategic dimension forward. That is actually the motivation why we did it. That is all about winning in a marketplace. We have strong brands, and mind you, we have been increasing the margin in our Ice Cream business, also in Europe substantially.

So, this is not a bad business that we're getting rid of. What we do is a business that we enjoy more and more, that we really see with the complementarity of the two capabilities. Brands and Premium, out-of-home together with in-home and the capabilities of production industrialization of the others. That combination is a powerful one. That is the reason why we are in together. So, it is not because of soft brands or not enjoying the business. Ice cream for us has gone, especially in margin, very well in the last years. But I leave it there. We're working diligently. It is a complex thing because many markets involved and these businesses are embedded in our structure so we have to work on this. And that is what we are doing.

<b>Question on;</b>	<b>Co-operation between Nestlé and Alibaba</b>
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**Xin Ling, Xinhua News Agency**

Since you talked you've talked about the e-commerce, I'd like to know about the strategic cooperation between Nestlé and Alibaba. Thank you.

**Paul Bulcke:**

I would give that to Wan Ling who knows quite a bit about that. So, Wan Ling China, I give you the floor.

**Martello Wan Ling, Head of Zone AOA, Nestlé S.A.:**

Good morning. A lot of exciting things happening on the e-com space I see now in China. And in fact, the shift has been major from bricks-and-mortar into the e-commerce space. The alliance that we have between Alibaba and Nestlé, it just covers a few points, which is partnership in terms of cross-border, selling of products coming from outside of China, obviously, partnership in terms of their program which is the *Taobao* rural going into a lot of the smaller villages, and also leveraging a lot of the data that Alibaba has to help us in terms of targeting advertising and product developments. So, those are kind of like the highlights.

**Paul Bulcke:**

Thank you.

<b>Question on;</b>	<b>Approach to cost management</b> <b>Promotional efficiency</b>
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**James Edwardes Jones, RBC:**

Good morning, Paul. Good morning, François-Xavier. You acknowledge in the short term at the least the market is difficult. Rather than, I think your phrase was, 'a relentless focus on cost' which implies to me at least more of the same, do you need to adopt a significantly more austerity-orientated approach towards cost management?

My second question is a developing theme for several of your competitors is enhancing promotional efficiency. What extent is this an opportunity for Nestlé?

**Paul Bulcke:**

I didn't understand your first question. Relentless cost management? What was the question?

**James Edwardes Jones:**

Clearly, the market is tough out there. You moved away from the 5% guidance in the short term. Do you actually need to ramp up your cost management rather than this sort of relentless to me implies you're going to carry on doing more of the same? Should you actually be looking at significant increase in your cost control or cost reduction activities?

**Paul Bulcke:**

All right. So more disruptive cost initiative or something? I can tell you, relentless is not more of the same little pace and hiding behind that continuous and saying don't bother us. I can tell you, we should may be more explicit and talk more about that. But the fact that we go continuous, Nestlé Continuous Excellence, for example, and we have mentioned that before, is something that involves almost everybody in this organization. This is not just a mindset, let's talk about that, and then it's done.

There is something like, and I'm not far from the reality in saying there are 30,000 projects last year alone linked with Nestlé Continuous Excellence. That goes from a few thousands Swiss francs and a line somewhere to major projects where we have been driving out for example reports in our company. We have been driving out thousands of reports in our company.

Our structural cost. Here in the center the Swiss franc is heavy. So, we have been very cautious and actually have reduced our Swiss franc footprint in our structural cost globally in the company. These are the things that we go about, and I mentioned it.

What's happening out there? I know that you refer to quite a few other initiatives, well – that creates with us a more acute and sharper view on cost and less tolerance. So, I'm going to say that far from actually being a project that goes only after cost Nestlé Business Excellence brings that capability together, the backline and frontline to give more support, more effectiveness into the frontline and yet then leveled up and scaled up cost.

So, you're totally right. Structural cost is very high on my agenda and definitely very high on the agenda of François also, and together we're going to go after that more intensively. We see what's happening out there and rest assured, we are totally aware and acting and reacting on that. So, it's a good point and it helps me to drive that through the organization, too.

Promotional efficiency is a very important point. It's a resource – again, return on resources. This whole mindset of return on resources. Hence for example, backing off promotion on certain brands that we don't see the payback from it and focusing on really what matters. There's a fundamental and still we're working and bringing in more tools. There's a mindset; return on time, my time, I want to invest it where it matters, where I feel like I can make a difference that is linked with what we've looking for. The same thing goes for everything and that mindset is definitely there in promotions, too.

We have for example the social media. In social media we are working with these big partners to really drive and implement and test tools to test the efficiency of communication. I must say some of the worldwide renowned partners we working with, and we working with the best, are saying that we are quite a little bit in front of quite a few others in really looking into return on our efforts in social media. And the same we're going to do in E-commerce. What is the effort, what are the margins coming out? But it's a good point. Sometimes Nestlé is continuous. We go our way. We do it our way or the Nestlé way, and sometimes we don't use these international words that are 'in'. But mind you, it's all part of what we mean by continuous. It is a lot of intensity.

<b>Questions on;</b>	<b>Coffee Margins ROIC and Atlas tool</b>
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**Warren Ackerman, Société Générale:**

Good morning. It's Warren Ackerman here at Société Générale. Two questions also. The first one is around Coffee. I mean, there's been ever more consolidation this year in Coffee with Keurig Green Mountain being acquired. And this new challenger getting quite close to Nestlé overall in global leadership. Nestlé's still the leader, but the gap's closing quite rapidly. And I'm looking at that. And also looking at the fact that Powdered and Liquid beverage margin is down 180 basis points. So, can you talk about the outlook for the coffee market and why margins were down so much in the year? And what role hedging played in that reduction?

And the second one is for François. It's around return on invested capital. Your ROIC was I think 10.8% in 2014. Where did ROIC come out in 2015? You said that it's a priority. I'm interested on where we are at on your Atlas tool and your agenda of accelerating, protecting or fixing the portfolio. And where do you see the biggest upside in ROIC because that level of 11% is still well below best-in-class peers? Thank you.

**Paul Bulcke:**

Coffee. We are on high alert in that sense because we see what's happening out there. And actually, at the end of the day, we like good competition and it looks like we're going to have good competition there. They're closing in on our leadership yes, but they're not hanging in our wheel and we don't want to let them get in our wheel. We know and the cyclists, they know, when the car starts getting into the wheel, they're hanging in. So, we're going to maintain a difference there. That's why I mentioned that we are uniquely positioned because if you see, we are a company that leads this very interesting market that is growing. It is growing because we are inventing and reinventing the category. Apparently, we have to continue doing that, but it's growing also because there is that intensity.

Now, we believe that having to do that with these two strong brands, we don't have that complexity. We have two strong brands. *Nescafé*, and *Nescafé* is building permanently and reinventing its reality permanently. You saw *Dolce Gusto*, but also in the powder and RTD there's so much happening. In out of home, we have an all new set of machines there, too, et cetera. So, *Dolce Gusto* is being rolled out. I mentioned that we are in 80 markets. There's still 120 markets to go and still growing faster in Western Europe. It's double digit but quite nicely both double-digit growth in Western Europe where it started almost 10 years ago, still going on.

And so that's the first thing. And then in *Nespresso*, *Nespresso* continues growing. There is also intensity there, creates more innovation. I think *Nespresso* competition, I feel *Nespresso* is in a class apart. That's the positioning that we are aiming at. That's where we want to position it as a class apart because of the quality in the cup. Now, we are engaging North America with a special *Nespresso* offering that adapts 100% to what class apart means in the United States, and that's fantastic. And then we have that scale, we have the brands, we

have the R&D, we have the pipelines, and we have the competition there really motivating us to do the right things. So, that's where we are.

Margin down? Yes, but a very, very substantial margin still. And there again, in *Nespresso*, Swiss franc has an impact. We have extremely efficient factories. We actually inaugurated a new one. We will have a roll out to do in the United States so we put resources behind that for the future. That has a certain cost, but it's a good investment, and that's where we are. Return on invested capital for you.

**François-Xavier Roger:**

Just one additional comment on the margins down on Coffee before talking about margins. Let's not forget that our organic growth in Coffee increased by 5.4%, and the RIG increased by 3.1% which we believe is good, and we gain market share there.

Hedging played against us in 2015, and especially in Coffee. Hedging is not an exact science. We take a position that we freeze for a certain number of months. We are gaining some years and losing some other years. We gained in 2014, and we lost a little bit against market prices in 2015.

Finally, I want to say as well on the margin on Coffee, we are in an investment position clearly with *Nescafé Dolce Gusto* which is growing very fast, which is as you know, already a billionaire brand, and will be a billionaire brand in EMENA alone in 2016. So, we clearly in an investment position there, and we see the results in terms of growth.

Talking about return on invested capital, as you know, this is a clear area of focus for us. It is true that we are at a rather, let's say, low level and we ambition to grow. The good news to start with is that we started to gain a little bit of traction in 2015. We improved our ROIC by 10 basis points to 10.9%. It's not a long way, but it's probably the beginning of a start.

We are clearly acting very much on it and on all the items of return on invested capital. Starting with the operational ones, starting with EBITDA, we keep on increasing our margin year-on-year. We can do more, and we will try to do more there. But this is the first lever.

The second one is on working capital. You saw the progress we've made which is quite impressive. And once again, we can do better. Capex is another dimension. You saw the way that we went with a significant decrease over the last few years from around 6% to 4.5%. And we believe that we can sustain at that level while supporting our growth.

Finally, so on the operating side, I think that we will see some improvement. And we have been doing a good job. The second part of the return on invested capital is about goodwill. There, we could probably- I'm not saying we could have done a better job, but this is what is putting some pressure on the return on invested capital. On that front, we need a little bit more time because this is more of a medium to long-term indicator. But I'm pleased to see that we see some development on the positive side. We will need certainly to be very cautious whenever making acquisition to pay the right price.

Just one last word on Atlas, I think that this tool is a fantastic tool. We identified three years ago, a certain number of businesses that needed to be fixed. A lot has been done already because out of what have been identified three-and-a-half years ago, we have fixed already about 80%. This is a dynamic process, and we have work in new areas that have appeared and so forth.

But you saw what we did with Ice Cream, which is one way to address the issues. You saw what we did with frozen food, which is about reinvestment. You saw what we did with *Davigel*, which is about disposal. So we can bring different answers to different types of issues. The tool is constantly used not only at HQ level. It is a very operational tool which is used at operating level, which makes it a very, very powerful tool.

<b>Question on;            Margin expansion in 2016</b>
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**Jeremy Fialko, Redburn:**

Hi. Good morning. Jeremy Fialko at Redburn here. Thanks for taking this final question. Just going through all of these moving parts in the margin, it sounds that you should have put a more favourable commodity cost next year given some of your comments on timing and hedging having worked against you in 2015.

Clearly, your advertising and promotion was up very heavily as a percentage of sales in 2015. You had these one-off issues in terms of the other businesses and also the *Maggi* noodle effect. Offsetting that, you've got pricing perhaps a little bit softer than in 2015. But when I put all of these together, it sounds to me that you should have the year of clearly, let's say, above average margin expansion in 2016. So, is there something I'm missing out on or is that something that you would expect? Thanks.

**François-Xavier Roger:**

We treat with caution. Indeed in commodities, we might have a marginal tailwind in 2016 over 2015. That being said, let's be careful. The year is not over to start with. And we have a couple of commodities which are starting to increase again like milk, for example, and you know that this is a significant component for us.

Second, let's not forget one thing that is the main component of the increase of our margin by 170 basis point in 2015 is coming from pricing which accounts for about 100 basis points. And pricing once again, we take a cautious view on pricing in 2016. You know that we benefited from about 2%, in terms of our organic growth, 2% came from pricing. In Q4, it was only 1%, so we clearly see a trend with less pricing even at the end of the year.

One-offs, I agree with you. We don't have any one-off this year. We had some last year although we still suffer from some headwinds from Indian noodles probably for the first six months of 2016. So, let's be careful there. That being said, we have clearly indicated in our guidance that we expect to improve our operating margin again this year as we have been doing over the last 10 years, but commodity might help. But pricing will probably be on the lower side.

**Paul Bulcke:**

Let me add something to this in a sense that we can have mechanical rational explanation of margin and all the ingredients. There's something fundamentally here. The softer growth, pricing is not there. We do have a basket of raw materials that moves differently than the old price I would say. There are dimensions, like milk, coming back. I hope some of these raw material prices are coming back because we need a sustainable supply of agricultural materials. The farmers have to have their income. The competitive intensity in a lower environment is extremely intense. And we're not going to disengage from competing.

Second, Nestlé is in an acceleration mode towards Nutrition, Health and Wellness. We are engaging and we are building platforms. We mentioned it. There's the Health Science, Skin Health, and we're going to put resources behind it. But there is also specifics in our Food and Beverage business.

We spoke about Coffee. We're going to engage in Confectionery. There's so many things that I feel. It's a fascinating time to live in. In spite of all the uncertainties and turbulences, there's so much opportunity we want to embrace. E-commerce and how we engage there. There is some up-front investment that we're doing there, too.

So, I think that's why we have to pace these things out and manage them and dance that fine line. But our commitment is a continuous margin increase in constant currency. And that is what we promised to the market. That is what we try and look for on a continuous base. Also although, that's not the reason why the margin is not going to increase as you would like, but we have 150 years of celebration. So, we're going to do that this year too.

**Concluding comments****Paul Bulcke:**

With that, I thank we are coming to – we had our last question. Thank you very much for following us there on the other side of the webcast. So, thank you, all, for being here and sharing this moment with us. And looking forward to an exciting 2016 again. So, a year of celebration, 150 years of our Passion for Nutrition.

Thank you very much.

**Robin Tickle, Head of Corporate Media Relations, Nestlé S.A.**

Thank you very much, Paul. As usual, we are happy to take any follow-up questions via e-mail or Twitter or any other means. I'm sure you know the addresses. Thank you very much.

**END OF TRANSCRIPT**