NESTLÉ S.A.

2016 FULL YEAR RESULTS CONFERENCE CALL TRANSCRIPT

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Speakers:

Mark Schneider, Chief Executive Officer, Nestlé S.A.
François-Xavier Roger, Chief Financial Officer, Nestlé S.A.
Steffen Kindler, Head of Investor Relations, Nestlé S.A.

Steffen Kindler, Nestlé S.A, Head of Investor Relations:

Slide: Title slide

Good afternoon and welcome to Nestlé's Full-Year 2016 Conference Call for Investors and Analysts. I am here with our CEO, Mark Schneider and our CFO François Roger. As usually, we first present our numbers and the background and afterwards we'll open up for Q&A.

Slide: Disclaimer

With that I take the disclaimer statement as read, the Safe Harbour statement.

And I now handover to Mark Schneider.

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

Slide: Title slide

Steffen, thank you and a warm welcome to our investor call participants today. I know this is the first time I am communicating with most of you and I certainly appreciate the interest in Nestlé.

Since it's our first time, what I'd like to do is only touch briefly upon some of the key metrics for 2016 and also towards the end, the outlook for 2017, but focus for the most part of my presentation on some of my initial impressions of what we need to do mid-term, our priorities and our commitments and give you a flavour of where we're headed.

I will then hand it over to François for a detailed review of our 2016 financials.

Slide: Key messages

So, let me cut to the chase and the key messages here for 2016.

I think, in summary our key organic growth metrics, we ended up at the higher end of industry. But also there is no beating around the bush; we were at the lower end of our own expectations.

There were only two key factors applying in the second half of 2016. One was the fact that our volume growth in the second half was not as strong as expected. I think across the board, as we look at the consumer goods industry in key markets, we saw somewhat of a slowdown that applied to us as well. So when you compare real internal growth for the second half of 2016, it didn't quite reach the first half levels. So first half, real internal growth was 2.8%, the full-year number is 2.4%, as you see, there was a slowdown in that timeframe.

In addition to that, pricing did improve somewhat in the second half, but didn't improve quite as fast and not as widespread as we thought and hence we didn't quite reach the full level of 3.5% that we had anticipated.

What is giving us encouragement is the solid operating margin improvement for the full year of 2016. We achieved a 20 basis points improvement on a reported basis. There was a currency headwind, most notably coming from the Swiss franc. So on a constant-currency basis, it was actually a 30 basis point improvement.

And when you then just focus on the core Food and Beverage business and leave out some of our start up and growth businesses, we achieved a 50 basis point constant currency improvement. So I think a solid job in this environment in our core Food and Beverage business.

What I'd like to do for the 2017 to mid-term part of my presentation, really give you my perspective on what I perceive to be continuity and change as it applies to the consumer goods industry. I would like to reaffirm our view that organic growth remains the key long-term value driver in this industry, and I'd like to share with you some of the initiatives we have underway to be sure that our organic growth improves over time. And then lastly, I'd also like to reiterate our continued focus on operating efficiency. I think a lot of good things were already announced on that last year as part of the Investor Day and I'd like to give you a bit more colour on that.

Slide: 2016 performance highlights

So with that, just a brief look at the 2016 performance highlights. You will have seen the key data by now. Sales of CHF 89.5 billion, organic growth 3.2%, real internal growth 2.4%. I think the strong real internal growth should be a source of encouragement. I think we're seeing a good basis here as and when pricing kicks in to build a better organic growth performance going forward.

In terms of the trading operating margin, the plus 30 basis points in constant currency, I mentioned earlier. Do keep in mind, these numbers already include some of the higher restructuring expenses that we faced in 2016. Restructuring costs in 2016 were CHF 300 million. That's basically twice the level of 2015. So that's already baked into the 30 basis points increase. And I think that points you to a very solid bottom-line job in this difficult year.

Slide: Continuity and change

Next, let's talk about my views regarding continuity and change in the consumer goods industry, and let's start with my commitment to Nutrition, Health and Wellness as our key strategy that the company has been pursuing diligently and patiently for the last several years. And what specifically does Nutrition, Health and Wellness mean? It certainly does not mean, as some people speculated upon my appointment, that we're going to be turning into a pharma or a biotech company.

What it does mean is that we will diligently work in our core business to constantly improve the nutritional profile of our Food and Beverage offering. So, for example, lowering the sugar content, lowering the salt content, improving nutritional value, all of these projects have incredible value at a time when more and more consumers understand that good and appropriate nutrition is basically the key driver to long-term health outcomes.

At the same time, we will patiently and diligently, with a certain amount of ambition, but also with prudence, we will build up the two new healthcare-related ventures we have, that's Nestlé Health Science, which is mostly medical nutrition, and also Nestlé Skin Health, which of course is focused on skin health products.

So pursuing both of these things certainly is no contradiction. I think we have the resources, we have the management talent and we have the focus to do all of this without getting distracted. And I think it also plays upon each other because when it comes to some of the scientific underpinnings for both sides of the equation, it's really the same.

Next, let me talk about our commitment to long-term value creation. And what I really would like to focus on here is that in the consumer goods industry, regardless of some of the recent tendencies we're seeing, we believe that if you want to create value in the long-term, it has to happen from the top line and the bottom line at the same time. This is important because recently you see a lot of players focused on the bottom line only, with very aggressive steps, very solid improvements of course, but clearly, you can also see that organic growth for these players is suffering. And of course the long-term limitation is that you can cut costs only once, afterwards you're still stuck with organic growth that is negative or at best neutral, and hence there's no long-term growth perspective.

On the other side of the spectrum, you're seeing a lot of small, local, either start-up companies or mid-size established companies that basically cater to some of the recent consumer trends, whether its organic or other healthcare trends related to Food and Beverage. And the problem there is that not all of these trends are scalable, not all of these trends are really sustainable in the long term, and so not everything that looks good from a top line perspective in the short term is really holding up to their promise longer term.

So we believe to steer a middle path, on the one hand focus on organic growth, bet on the tendencies that really have long-term value, especially when it comes to improving the nutritional value of our Food and Beverage products and also scaling up the healthcare businesses, and then couple that with a strong bottom-line commitment, improving our operating efficiency on a constant basis, I think that's the winning combination.

I understand, compared to where we are right now, we need to do better on that. We need to offer you a better combination of that. I think we're committed to that. And on the following slides you're seeing some of the steps that the management team over the past years has undertaken, and that I'm fully committed to, that we can work out to improve that combination of growth and margin.

Let me also comment on our approach to M&A. The company has done significant M&A in the past, and I have personally done in my prior job significant M&A. However, M&A is no panacea. And so clearly, what I want to dissuade is any potential concerns here that we might be going overboard on M&A spending. In fact, I think right now is probably not the best time to chase big ticket deals. You're seeing some of the recent multiples being quite frothy. I think right now is the time either for good, solid operating management, or small to medium size deal making like tuck under acquisitions that offer an immediate advantage to the company and come at the right price.

So, I just want to dissuade any concerns here that we would resort now to big ticket deal making. Right now, the top priority is clearly our operating performance, top and bottom line. At the right time, at the right moment, for the right price, deal making would certainly be part of our toolbox when it comes to rounding out our strategic positions, but again, short-term, right now we are not working on any major transactions.

In terms of people and leadership, just wanted to give you my first-hand impression after five and a half months on the job with the company, and basically 5 weeks on the job as CEO, that I'm very impressed with the Nestlé leadership team I've met now at many locations around the globe. I think with this team, we can go places. And I'd also like to confirm, contrary to some of the speculation that had appeared in the press, this is the team that will go places. So we're not reorganizing and we're certainly not thinking about key leadership changes.

In terms of transparency with our stakeholders, I think the company has done a phenomenal job over the last few decades, communicating at all levels, from local to global, with key stakeholders, whether it's NGOs, governments, regulators. And I think part of that, which I'm very proud to step into, of course, is also good and solid and dependable communication with the investor side. So, going forward, I would like to assure you that I'm very committed to shareholder-friendly communication. And that, first and foremost, also means avoiding surprises and sticking to time-tested policies, including, of course, our long-term, growth-oriented dividend policy.

Last but not least, just to drive it home, when it comes to making choices and fast execution, while we are committed to this middle course of top-line growth and bottom-line improvement with operating efficiencies, we do understand that we need to offer you a better combination of these two. We do understand in this fast-changing environment in the consumer goods industry and also facing some of the recent deflationary tendency, we need to work fast to make change happen, adapt to the new environment and give you an attractive combination of growth and profitability, and we are very committed to doing that.

Slide: Organic Growth key to long-term value creation

So let's first turn to the growth side of the equation and let me cut to the chase right away, I do expect that in the mid-term by the year 2020, this company can get to mid-single digit organic sales growth. This is my assessment, after spending a lot of time out in the field, with our product development people, with our sales people, and basically understanding what is the potential that we have in our arsenal. And I list below a few of the key initiatives here that apply that the company has embarked on and where I think will be executing going forward.

The first one clearly is to invest very selectively, to support those fast-growing categories and regions that are clearly giving us success right now. So when it comes to regions, think about Asia Pacific, I know that our recent progress there has been masked, it has been masked in the year 2015 by the India noodle situation, it has been masked in the year 2016 by some of our activities in China, for example *Yinlu*, but by and large, when you look at all the markets there and some of the other categories, we've seen amazing success and very good growth in a region that still has a long runway. And clearly, our purpose is to advance everything we can – do everything we can to advance growth in those areas and that really means committing the necessary resources to markets like these.

I'm picking out here, I'm singling out Asia Pacific, but you find that time and time again, in Emerging markets, do keep in mind, the company derives about 42% of its sales from Emerging markets. So, at a time when some of the growth is more subdued in established economies, I think that strong Emerging market posture is going to be a winning position. I think some of the Emerging market slowness that we've seen in 2016, as raw material prices inflate again over time and these economies get going again, they will turnout be major growth drivers, so this was a temporary air pocket.

Same thing applies to categories, so think about some of our high-growth categories like Coffee, Pet food, and Water, clearly giving these categories all the resources they need to either extend their lead or defend their lead, this is going to be one of our key recipes for mid-single digit organic growth going forward.

I would like to focus for a moment on Coffee in particular, because I think in all modesty, in Coffee, we really have it all. We don't just have a leadership position, a significant one, but we also have I think four major approaches to the market. We have with *Nescafé*, the world's leading, truly-iconic brand in Coffee, the most recognized brand in that space. We have with *Nespresso* not only the most sophisticated, but also the most exclusive cartridge system, and clearly a constant flow of product innovations coming to market in that space and under that brand name. We have with *Nescafé Dolce Gusto* a retail cartridge system that's pretty widely available and continues to be rolled out in many regions of the world and finds major acceptance. And the last but not least, with our professional side of the Coffee business that's now managed by each of the regions individually, I think we have a foot in the door when it comes to the out-of-home Coffee segment, which of course is very promising down the road.

So with all of these amazing brand names and technologies that we can bring to the table and the sheer scale that we can bring to the table in Coffee, I think we're extremely well-positioned to defend and build our leadership position in that space. It's not just a matter of pride. I think this is good business because this is a high-growth area that also offers very good margins.

Next, addressing low-growth businesses. I mentioned *Yinlu* in China earlier, so for businesses like that, we will focus very strongly our management efforts on turning those around. I'm very pleased with the efforts that our China management team under the leadership of Wan Ling has taken last year to address the situation. These situations will take time, but believe me we'll have a healthy sense of urgency when it comes to addressing those situations and turning them around.

In terms of product and business model innovation and also digital opportunities, I think there is major upside available to us. On the product innovation, clearly with one-third of our products being renovated year-after-year, I think there is a significant opportunity here to meet changing consumer tastes. And then when you put together digital opportunities in the business model innovation, I think there're many opportunities to add service layer to our products or to engage in a direct conversation with our customers around the globe and intensify that relationship.

I am proud to say, François will report on it later, but especially in digital we have made significant progress last year. I think we're really getting traction in that space, not just on the communication side, but also when it comes to rethinking, redesigning some of our business models and gearing them for more growth.

And last but not least on portfolio management, we will stay committed to that as well. So when we do see for example that a business no longer fits our strategy or that there is long-term diminished prospects when it comes to growth and profitability, yes, we can also address that through portfolio management, just as we can buy ourselves into faster-growing segments of some of our Food and Beverage offerings or healthcare offerings. So, yes, we will use that tool going forward as well, but we will use it with caution and hence it was no coincidence that I mentioned this one last on this slide. I just wanted to be sure, we're not resorting here to stock picking to improve our growth, but rather we use our operational efficiencies first, we'll use our operational steps first to increase our growth and then only as a last resort turn to M&A to solve the situation.

Slide: Continued focus on operating efficiency

With that, let me turn to the next side of things and that's operating efficiency. I think that's the other side that is important to make growth meaningful. Growth without efficiency, that's just basically being busy in the name of customers. But efficiency is the one that really gives the whole thing meaning and value and hence we are very committed to driving efficiency down the road.

So, my key statement to you is that I fully support and very much appreciate the steps and the leadership that Paul Bulcke and François Roger have initiated and communicated to you last year, when it comes to operating cost savings. So when it comes to the at least 200 basis points of structural cost savings that we attempt to achieve by 2020, I fully confirm that target today. I think we had some exciting preparatory work underway in 2016 to make that happen. The good news is, when you look at the margin improvement in 2016, that has not used up any of that 200 basis points yet, so this is still to come, and hence this is upside over and above the present situation. And I think we have a lot of exciting internal projects underway to make that happen.

As a result of that, as you will see now from the 2017 guidance, we expect an additional increase in our restructuring cost to circa €500 million – CHF 500 million, I'm sorry.

Slide: Outlook 2017

In terms of the outlook for 2017, we expect organic growth in the range of 2% to 4%, mind you that the midpoint of that guidance about 3% roughly equals our run rate in terms of organic growth for the past three quarters. So I think the midpoint is very well centered on where we are today.

If you're wondering about the margin to the left and to the right, do keep in mind that this is a pretty volatile environment right now. So on the plus side, there is pricing and I think there are signs here that pricing is improving.

On the minus side, we do have a volatile environment. We've still some persisting deflationary tendencies, and frankly in this very turbulent, volatile situation, it's pretty hard to hang your hat on a very narrow guidance. So I think for the moment, to enter the year on that base with a wider bracket makes a lot of sense. We'll define it more closely for you and narrow it as we see fit during the year and as we get more confidence on where things are headed.

In terms of the restructuring costs, I mentioned the roughly CHF 500 million we have identified so far. This is an investment from my point of view to drive future profitability, and you should take confidence from the fact we're stepping that up from the roughly CHF 300 million we already shouldered in 2016. 2016 was a step-up from the circa CHF 150 million that we had in 2015. So I think we're on the right path here towards addressing operational efficiency issues and clearly that will pay off.

We're also committed to keep the trading operating margin stable in that environment. So basically that implies a 20 basis point to 25 basis point improvement in our trading operating profit margin before the restructuring cost. We will continue to look for and identify restructuring projects, and so as a result of that, the final amount may vary and during the year, we will give you updates not only on the amount of restructuring that we do expect for 2017, but also on our performance in our trading operating margin before and after those restructuring costs.

And last but not least, we're committed, as always, to underlying EPS growth in constant currency and also continued efforts towards improved capital efficiency.

So that's my initial take on some of our mid-term steps and also the specific outlook for 2017. I hope you appreciate it for two things. One is, a sober and realistic assessment of where we are right now, coupled with the ambition here to keep the one thing alive that this is a hallmark of the company and that is driving superior long-term capital returns with sustainable top and bottom-line developments. I think that is something that has a lot of runway for us, we're committed to it, we've taken decisive steps to watch it already now, those are starting to payoff, we'll do more of that and I'm sure we'll get there. Thanks. And let me hand it over to François.

François-Xavier Roger Nestlé SA, Chief Financial Officer:

Slide: Title slide

Thank you, Mark. Good morning and good afternoon to all. I would walk you through our financial and starting with the summary.

Slide: Increasing RIG, margin expansion, strong cash flow

The full-year 2016 ended on a positive note with a RIG at 2.4%, which puts us at the higher end of the industry. Pricing is starting to come, although it comes a little bit later than expected, but we saw some acceleration of pricing in the later part of the year.

Our trading operating profit at constant currency stood at 30 basis points – with a 30 basis points improvement during the year, after doubling the restructuring amount that we booked in 2016. It is important to note as well that we had the strong contribution from Food and Beverages, which accounts for 95% of our sales and the trading operating profit for Food and Beverages increased by 50 basis points last year.

We had strong free cash flow, which stood at CHF 10.1 billion or 11.3% of sales, the improvement is largely coming from our growth, our margin improvement as well as a significant improvement in terms of working capital.

Our underlying earnings per share at 3.4% is at the lower end of our expectations and we're working on it.

Slide: Quality growth – Organic growth driven by Real Internal Growth

Moving to some historical perspective on organic growth, over the last three years, we saw some acceleration of our RIG; RIG is a combination of volume and mix. So we saw some acceleration, since we reached the highest level in 2016 over the last three years. This is a good indication of the quality and the sustainability of our growth and RIG is important, because this is very much about share of stomach, this is very much about share of shelf space in the trade both online and offline. It does reflect as well our capacity to innovate and it does reflect the investment that we've been doing in marketing, in e-commerce, in digital.

Pricing was relatively low in 2016 at 0.8%, although we saw some acceleration we were at low level, 0.4% in Q2 and we ended up the year at 0.9% in Q4. We have already taken additional steps above what we disclosed last year, for example Brazil. We have recently increased prices in countries like Mexico, in the Philippines at the end of January in the UK, as well as we started to implement even price increases on a selective basis in Continental Europe.

Slide: Quality growth – Broad based RIG and OG across geographies

Moving to the distribution of our sales and growth by geographic areas, a slide that you see here is a slide that shows the growth between geographic areas, it includes our Zone and globally-managed businesses. We have a RIG, which is well-balanced between the Zones and we saw some sequential acceleration during the year in AOA.

Our OG is healthy in all the Zones. Pricing was negative in EMENA, mainly because of deflation in Western Europe and pricing was slightly negative as well in AOA as we had some pressure on Dairy pricing. Pricing was positive though in Latin America, mainly because of Brazil.

Slide: Quality growth – Growth in Developed and Emerging markets

When looking at the breakdown of our growth between Developed and Emerging markets, so we have the same level of RIG between the Developed and Emerging market, this is good for Developed market because it shows our capacity to innovate in markets where the growth is limited. That being said, the level of growth, of real internal growth in Emerging market at 2.4%, we see that as an opportunity for the future.

In Developed market at 1.7% of OG. This is once again the evidence of our capacity to premiumise, to manage our portfolio and we saw some acceleration of the RIG, while in Emerging markets, our RIG was a little bit slow, once again because of Brazil where we put some price increase through, as well as *Yinlu.*

Slide: Quality growth – 30% of sales come from innovated or renovated In the last 3 years

We are very much in the business of innovation and this – the illustration of it is a fact that about 30% of our sales are coming from products that were not in the market three years ago or that we renovated over the last three years. You have some illustration of these products on the screen.

Let me just walk you through some example, like I said, *Les Recettes de l'Atelier*, for example which is a premium chocolate offering that is currently marketed in eight countries across Europe, we grew that product by 22% last year for example. I could talk of *Coffee-*

mate Natural Bliss as well, which is really addressing need for by – demand by consumer of more natural and organic product, this product grew by 42% in the U.S. last year.

I could talk of *Illuma* on the right hand side as well, a lot of innovation that we bring to the market is scientifically driven, *Illuma* is a good example of it; *Illuma*, which did not exist as a product a little bit more than five years ago reached CHF 900 million of sales in 2016, in China alone and grew last year by 34%.

Slide: Quality growth – Leading in eCommerce

We do invest in innovation, we invest in marketing, we invest in order to premiumise our range of products, but we do invest a lot as well in new channels and this is really at the core of our strategy. And e-commerce is a good illustration of it, and you can see there that last year in 2016, we reached almost 5% of our total sales coming from the e-commerce channel, while it was at 2.9% in 2012.

E-commerce sales grew last year by 18%, which is six time faster than our average growth and if we put *Nespresso aside*, it's part of the business model, even without *Nespresso*, the sales of e-commerce grew by 34% last year.

Then I would like to mention as well that in a certain number of our cells, cell is a combination of geographic area and category, we can track in about 70% of our cells, our market share between online and offline. In those cells, we have a higher market share online in 57% of them, which shows that we are doing well in terms of e-commerce.

Slide: Zone AMS

Let's move now to the breakdown of our performance by Zone. I will start with AMS, with sales of CHF 26.4 billion, RIG of 1.3% and OG of 4.2%.

I will breakdown the analysis there between North America and Latin America. Starting with North America, we are facing deflation in – across categories actually North America, which mean that pricing was negative. That being said, in terms of both RIG and organic growth, we reached the highest level of growth over the last seven years. This has been largely supported by our Frozen Food franchise in the U.S. with sustained improvements. This has been driven as well by *Coffee-mate*. I talked a few minutes ago about the innovation with *Natural Bliss* as an example. And this is also coming from the improvements of our PetCare business, *Beneful* is now stabilizing.

Moving to Latin America, there we had the benefit of positive pricing, largely in Brazil, where we increased our prices significantly in June last year. This puts a little bit of pressure on RIG in the later part of the year in Brazil, but we saw some sequential improvements during the year.

Mexico did very well as well in 2016. Overall for our Zone AMS, our trading operating profit was down by 10 basis points to 19.3%. We increased our restructuring spending there. And in Latin America, we had some pressure of additional input cost largely linked to depreciation of currencies.

Slide: Zone EMENA

Moving now to Zone EMENA. Sales of CHF 16.2 billion, RIG of 2.7%, and OG of 2%. Our RIG was strong in the region. It was the highest level of RIG over the last 10 years. Pricing was negative, largely the consequence of a deflationary environment in Western Europe.

Talking for Western Europe, we had the good level of RIG. We are winning market share. We had good performances with positive momentum in France and Germany, as an example, while the UK had a tough year. In Central and Eastern Europe, we had the strong RIG as well as the strong OG. In Middle East and Africa, we are facing an unstable environment, but we still achieved growth in terms of sales, in spite of the difficult environment, and Turkey did well.

Margin wise, we increased our trading operating margin by 100 basis points to 16.7%, in spite of increasing the amount of restructuring that we booked as well as an increase of marketing spend. The portfolio management helped us there a little bit with the creation of *Froneri* from the beginning of October, and we benefited as well from some premiumisation in our range, as well as obviously the volume growth and some efficiency programs.

Slide: Zone AOA

Moving to Zone AOA, with sales of CHF 14.5 billion, RIG of 2.9% and OG of 3.2%. We had an increasing RIG momentum sequentially during the year. In Emerging markets, we had nice growth apart from *Yinlu.* We had a strong growth in South East Asia as well as in sub-Saharan Africa. In China, Confectionery and *Nescafé* did well. *Yinlu* was in negative territories, and as a consequence of that, *Yinlu* reduced the Zone organic growth by 260 basis points. In India, Maggi has been back on the shelf for some time and we have now reached already 60% market share. In the Developed countries of AOA, and more specifically in Japan, we had good growth, thanks to innovation. And as far as Japan is concerned, mainly coming from Confectionery and Coffee.

For Zone AOA, our trading operating profit increased by 60 basis points to 19%. There, again, we increased our marketing spend. We benefited from a positive development in terms of gross margin, with lower input costs, with the volume increase that we had, as well as a positive mix. We also spent a higher amount of restructuring during the year.

Slide: Nestlé Waters

Moving to Nestlé Waters, sales of almost CHF 8 billion, RIG of 4.5%, organic growth of 4.5% as well, so no pricing there. With Nestlé Waters, we are clearly benefiting from a positive category dynamics with a good favourable trend for healthier beverages as well as a strong demand for safe drinking.

In Emerging markets, we had high single-digit growth. In North America, it was mid-single digit, especially pulled by international premium brands. Talking of our international premium brands, *San Pellegrino* and *Perrier*. Their growth was actually two times faster than the average of Waters, which is really driving the mix in a positive direction.

In Europe, we had a low single-digit growth; just remember that we had significant heat-wave in the summer of 2015.

For Nestlé Waters, trading operating profit increased by 110 basis points to 11.9%, there again we increased our marketing spend. We benefited from positive volume growth as well as further efficiencies.

Slide: Nestlé Nutrition

Nestlé Nutrition, CHF 10.3 billion of sales, 0.9% of RIG, and 1.5% of organic growth. We consider that our performance on Nestlé Nutrition is rather resilient in the context. As far as China is concerned, we have been impacted as the entire industry by the introduction of the new regulation expected at the beginning of next year. As a consequence of this new regulation, we saw some pricing activity, we saw as well some inventory level reduction in the trade, and the entire category has been under pressure from a pricing point of view as the milk prices were low.

In that context, we did well again with *Illuma* that reached CHF 900 million of sales and the *Boost* sales increased by 34% in 2016. We are clearly as a market leader in the super premium segment. In China, we increased our market share in the e-commerce parts of the business.

Moving to the U.S. for Nestlé Nutrition, our growth was limited. We are working actively in order to refresh the *Gerber* brand through new packaging, new recipe and a certain number of other initiatives.

In Latin America and South East Asia, we had good performances. And overall for Nestlé Nutrition, our trading operating profit increased by 10 basis points to 22.7% and we increased our marketing spend and we benefited from low milk prices.

Slide: Other Businesses

Moving now to the last category, Other business, that includes *Nespresso*, Nestlé Professional, Nestlé Health Science and Nestlé Skin Health, sales combined of CHF 14.1 billion, RIG of 3.4% and organic growth of 3.7%. For Nestlé Professional, we had a good year, mainly in North America as well as in Asia. As you know, we are now merging this business into the three Zones.

Nespresso celebrated last year its 30th anniversary and 30 years after its creation, it is still growing in the three regions in Europe, in the Americas and in Asia, in spite of compatibles and lower patent protection. The U.S. is now becoming the second largest market. The *Vertuo* system after having being launched in the United States has been launched at the end of last year in France to start with in Europe.

For our Nestlé Health Science, we had a good pace of growth, largely pulled by our Consumer Care franchise with *Boost* and *Meritene*, while the medical nutrition range experienced solid growth.

For Skin Health, we had the good performance as far as Consumer Care is concerned. We decided at the end of the year to adjust our inventories down in the trade by about two weeks, which mean that we were negative in terms of organic growth in the fourth quarter. For Skin Health, we were down as far as prescription drugs are concerned, as we had to face some patent expiry on some products.

Overall, for Other businesses, our trading operating profit went down by 50 basis points to 15.2%. This has been largely impacted by the destocking at Skin Health, which contributed to about 20 basis points at Group level, combined with higher restructuring for this Other businesses, while on the other hand, we benefited from a positive input cost, especially for Nestlé Professional and *Nespresso.*

Slide: Broad-based growth across the product groups

Let's look now at the development by product groups. All categories have been positive in terms of organic growth.

I will not cover all the activities because some of them I already talked about. We'll start from the left hand side with Powdered and Liquid beverages, which is mainly Coffee as well as some other products like *Nesquik* and so forth. We had a good performance across the board for Nestlé, *Nespresso* and *Nescafé Dolce Gusto*, *Nescafé* as well as Professional.

If I move to the next category, which is Milk products and Ice cream. We had lower growth than in the past. It has been largely impacted by *Yinlu* and by low milk prices. For Ice Cream, we had the positive growth in the U.S. and we created at the end of September a category leader with the joint venture that we have with *Froneri*. For Prepared dishes, we had higher RIG than in the past. Now that Maggi is back on the shelves in India and our Frozen franchise in the U.S. continues to do well with attractive levels of growth.

Confectionery has been negatively impacted by volume, mainly in the United States and in the UK. On the other hand, we have *KitKat*, which is still growing nicely, more specifically in Emerging markets. Finally with PetCare, we had good growth across the board and we are happy now with the situation for *Beneful* in the U.S., which has been stabilizing.

Slide: Trading operating profit across product groups

Looking at the profit level between these categories, I won't go into the details, but I just want to mention the fact that we have a good consistency of profitability level between the categories. Some categories have a lower level of margin like Water, but they provide the higher level of growth in terms of sales and some of the lower level by category reflect the category structure as well to a certain extent.

In some other categories like Coffee and PetCare, we have a higher level of margin, which is really illustrating the leading position that we have in these categories, as well as of our capacity to innovate. We have been investing quite a lot in coffee and more specifically with *Nescafé Dolce Gusto*, which continues to grow nicely along as with *Nescafé*, we presented that at our Capital Market Day in May, as well as with *Nespresso* opening new boutiques as an example.

Slide: Trading Operating profit +30 bps in constant currency

Moving to our P&L, our gross margin last year increased by 80 basis points, so this is pretty much in line with what we had in the past. The main driver of this improvement of gross margin has been through our savings program starting with NCE, where we delivered north of CHF 1.6 billion of saving again in 2016.

We benefited from some commodity tailwind, but to a lesser extent, and portfolio management had some contribution to it, mainly with the disposal of *Davigel* at the end of 2015, as well as with the creation of *Froneri* later in the year.

As we did in the past, and as we do intend to do still in the future, we are reinvesting part of these efficiency gains into marketing in order to support a higher level of growth.

Slide: Cost efficiencies and portfolio management driving gross margin evolution

Even if we look at our gross margin, I just talked about it, if we look at it from a historical perspective it's interesting to see that we have increased our gross margin consistently over the last couple of years, actually by 3.5 percentage points in four years, which is quite a good achievement.

This is a consequence of efficiencies, once again with NCE. This is a consequence of our mix as well and we're working actively with the mix. This is a consequence of premiumising some of our ranges, and there is a contribution as well from commodity pricing, but it is the lower contribution.

Slide: Underlying EPS

EPS, as I mentioned earlier, the 3.4% is at the lower end of our expectations. We're aware of it. We're working on all levers in order to address it and the two main levers are obviously our organic growth and our margin improvement.

Slide: Continued focus on working capital

Moving to our balance sheet and working capital. We made some significant progress again in 2016. We reduced our working capital by almost 2 percentage points during the year. I just want to mention that this graph is showing a solid KPI, because I'm not talking of the values as at the end of the year, I'm talking of the average value of the last five quarters.

The improvement that we had in 2016 is largely coming, but not exclusively, from payables. We have identified for some further areas for improvement in the future.

Slide: CAPEX discipline in line with growth ambitions

Moving to CapEx briefly, we have been able to contain our level of CapEx around 4.5% over the last couple of years, which is a good illustration of our capacity to deliver efficiencies in our capital management, while being able to support our growth.

Slide: Consistent industry-leading free cash flow generation

Our improvement in working capital has been a key contributor to our cash flow generation improvements. So we had free cash flow at 11.3% of sales last year, which is a further improvement to the level we were in the previous years. This is really at the higher end of the industry there and beyond the level that is attractive, what is good to notice is the consistency of the delivery over time.

Slide: Improving ROIC

ROIC, this has been an area of focus over the last couple of years. You can see that the ROIC before goodwill has been increasing significantly. This shows that we are good at operating our business and using all the levers that we have from growth to margin improvement to working capital management, CapEx discipline, and as well as M&A discipline, but M&A discipline is obviously for the lower part for the graph with the return on invested capital after goodwill, which has increased as well over the last two years.

Slide: Net debt in line with AA credit rating

In terms of debt level, we have decreased our net debt by CHF 1.5 billion last year. We sold about a CHF 1 billion of treasury shares during the year. We have been disciplined in M&A. We acquired some minority stakes of affiliates, as well as we did an investment with the *Proactiv+* company in the U.S., in the acne space, in order to gain the leading position in acne in the U.S. We value shareholder return and the board will propose to the AGM 22nd consecutive increase of the dividend this year.

Slide: 2017 Focus

Just to finish, our 2017 priorities. We are working to maintain our volume growth. Volume is important; this is what is creating substance for the long-term, as Mark indicated earlier. We are working actively as well in terms of pricing. As I indicated, we have already some pricing initiatives that have been put in place recently in countries like the Philippines, Mexico, the UK or even in Continental Europe.

Cost discipline remains as one of the top items in our agenda. I talked about NCE, Nestlé Continuous Excellence. We are working actively as well with the structural cost initiatives, six out of the eight have already started to be implemented. You saw, for example, the announcement that we did recently in the U.S. with the consolidation of our sites. Capital efficiency remains on the top of our agenda as well.

I won't repeat the guidance because Mark covered it already, then I suppose Steffen we move to Q&A.

Q & A Session

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

Thank you very much, François. Thank you very much, Mark. Yes, with that we move to Q&A and we open the line. The first question comes from Céline Pannuti from JPMorgan. Good afternoon, Céline. Please go ahead.

Questions on:	**Mid-single digit growth 2020 guidance** **Guidance for 2017**

Céline Pannuti, JPMorgan:

Good afternoon. My first question is on the mid-single digit growth guidance by 2020. I wanted to understand what kind of RIG should one have in mind, I mean I understand that inflation comes and go and I presume that there is probably an underlying RIG assumption behind that. You also stated that Emerging markets, AOA and some categories should drive that. But what is it exactly that you feel that you should be addressing there? Is it addressing some of the underperformers like *Yinlu* and that will get you there or whether there may be a lack of competitivity, a gap that you need to bridge.

And my second question is on the margin guidance, I think at some point you said that you want to offer the right combination of growth and margin improvement. You are guiding to 20 basis point to 25 basis point underlying margin for 2017. At the same time, we should see the benefit from the savings, the structural savings kicking in, I presume, over the next couple of years, so what should we be looking at, this right combination of top-line and margin improvement? Should we be looking at 20 bps, 25 bps and on top some of the savings from the structural program?

Thank you.

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

Céline. This is Mark here. Thanks for your questions. And let me just point out, so the outlook for 2020 mid-single digit, I think to really get there and keep our growth rates in that range on a sustainable basis, it will require an effort on both fronts, RIG and pricing. I don't have a detailed indication for you, where exactly that's going to be and I hope – that's understandable given that this is several years away. I also – I mean in my terminology typically when I talk about guidance, it's single year and that's why I want to be really, really precise with you.

This is a mid-term outlook, where I believe we can take the company, so that you have faith that over time we can improve when it comes to organic growth. And that's the way you should see it. So I can't pinpoint the RIG for you other than to say, it'll have to be RIG and pricing to carry that.

In terms of the guidance on the margin for this year. So what I'm indicating to you here, as of now, and remember some of this can still improve, but as of now, we have these CHF 500 million of restructuring projects. They might increase over time, that's why I was saying early days. And we can still commit to stable trading operating margin. So at the very least for this day before the trading operating margin before the restructuring, this will imply a 20 basis points to 25 basis points improvement. There may be more. It's not related to the savings program per se. Remember, on the savings program quite a bit of that will get reinvested into organic growth. But this is what we can do for this year, but also remember that 2017 is still an early year, when it comes to that savings program. I think most of the benefits from that program will really start to come to us in 2018, 2019 and 2020.

So again, in a year where we're also facing probably a turning point on raw materials prices, it may not look overly aggressive here at the beginning. But again, I do think, it takes some work to get there and I'm confident, we'll be doing it and shoulder the high restructuring cost at the same time.

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

Okay. It gets us to our next person in line. This is Jean-Philippe Bertschy from Vontobel. Jean-Philippe, your two questions, please.

Questions on:	**Nestlé Skin Health and Nestlé Health Science** **Nestlé Skin Health growth estimates**

Jean-Philippe Bertschy, Vontobel:

Hi. Good afternoon. The first question would be on Nestlé Skin Health and Nestlé Health Science. And maybe if you can share with us what is your plan in those two business segments. You had like massive hits last year with Nestlé Health Science, I think with *Prometheus* operating, and this year is now with Nestlé Skin Health. And I guess, you divested *Pamlab* at the beginning of the year, which you acquired a couple of years ago. So, if you can share with us what's the plan with these two business segments?

And related to that on the second question, you still have like more than CHF 3 billion goodwill on Nestlé Skin Health, I can see as well that you lowered your growth estimates with this business from high double-digit to roughly 10%,12%, maybe if you can share your thoughts on that as well?

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

Thanks, Jean-Philippe and let me take the first one and then hand it to François for the second one. So in terms of Skin Health and Health Science, look this is early days and we keep investing here in growth opportunities. And these growth opportunities in my opinion are linked to our Nutrition, Health and Wellness strategy. They're linked to the Food and Beverage core. Keep in mind for example in Health Science, the starting point was medical nutrition, which makes a lot of sense and is very accretive to what we're doing. So I think there are numerous connecting items here and it absolutely makes sense to pursue those.

Having said that, in the early days, you sometimes recognize things later, you sometimes make mistakes, you correct mistakes. So I think what we're doing here is clearly single out the winners and I think in the Health Science space I am very encouraged by what I am seeing about our Consumer Care efforts, I'm very encouraged by what I am seeing in our medical nutrition field.

And then in the skincare area, again the consumer side I think looks great. As François indicated, we did suffer, especially in 2015 from some patent expirations that also burdened on our sales growth in 2016. But again the longer-term direction to me makes absolute sense.

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

Jean-Philippe, good afternoon. For your question on the goodwill of Nestlé Skin Health, it is indeed a reality that we have some goodwill in our balance sheet, especially so, as we acquired the 50% of *Galderma* that we didn't own a few years back. That being said, we carry out impairment test on this business, as with any business, on a yearly basis and we don't see any risk of impairment today.

But the reason why we don't see any risk of impairment is relatively clear. The adjustment that we did in the inventory in the trade in the month of December 2016, does not give us a negative view of the category and the potential of the business, it's a one-off adjustment and we remain extremely positive on the outlook for Nestlé Skin Health. These are categories that grows mid-single digit and that remains.

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

Thank you. Next in line is Warren Ackerman from Société Générale. Good afternoon, Warren. Please your question – your two questions

Questions on:	**Changes needed at Nestlé to respond to fast moving environment Working Capital**

Warren Ackerman, Société Générale:

Hi, guys. It's Warren Ackerman here at SocGen. Mark, we've heard a lot about what you like at Nestlé and obviously you talked a lot about continuity. But can you spell out what needs to change as clearly you've been brought in from the outside for a very good reason and the industry changing at a record pace. And of course, showing your due diligence, you've seen that Nestlé's financial performance has not been great and today you've reset expectations in the short term. So can we talk a little bit about your thought process around that?

And then, secondly for François, can you talk about working capital, I mean, that was very impressive today, 200 bp improvement year-on-year is now below 3%. It looks like it's been driven by big improvement in payables, I think 15 days. Is that sustainable or shouldn't negative working capital now be a target, something you've shied away from in the past, but why not? Thanks.

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

Warren, this is Mark. Let me start off on your first question. I think I was hinting at that in my presentation. What we're seeing here right now is a period of unprecedented, fast moving change in the consumer goods industry. And so I think it's not surprising and this doesn't apply only to us, but also to other firms, that we need to step up the speed in which we will respond to that. And I think so that's a common theme and you saw that I mentioned as part of my initial slides. So this whole notion of speed of execution, getting stuff done, getting stuff implemented, whether it's on the growth front, for example, recognizing and reacting to a new customer trend, or whether it's on the efficiency front, where we need to capture those efficiencies the minute they present themselves and not wait and push them out and kick the can down the road. I think that is key. And I think the pace of change has been picked up significantly in this industry. The good news when you compare to many other industries, what you don't have is a complete disappearance of the industry, like when you compare that to some media sectors or others where things are totally turned upside down, we're dealing with fast change, but manageable change. And so we need to rise to that occasion, and I'm sure we will.

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

Warren, good afternoon. Regarding your question on working capital. This has been an area of focus for us with, as you could see, good results. In 2016, a significant portion of the improvement came from payable, but this is sustainable, don't expect that it will reverse tomorrow, a lot of has to do with supplier financing, and we still have room to go further in that space.

I must say, this improvement in working capital is a very healthy one, because we did not do it artificially, for example, by discounting receivables, or we didn't do it by threatening the potential of the business. For example, we are not aggressively reducing inventories, if we believe that it could threaten to a certain extent our growth. So we are very careful with what we do. But as I said earlier, I do expect that we have further room for improvement.

That being said, I'm not sure that we will be able to replicate the extent of the improvement that we have experienced in 2016 each and every single year. I can even say that I don't think that this is feasible that we go to some extent each and every single year, but certainly some further improvement.

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

Okay. Next is James Targett from Berenberg. Good afternoon. James. Your two questions, please.

Questions on:	**China - Yinlu Recovery and Outlook** **Drag from China on Nutrition business**

James Targett, Berenberg:

Good afternoon. Yes, my two questions really refer to China. I mean, firstly on *Yinlu*, you mentioned clearly the double-digit negative this year and it's a material drag on Zone AOA. Could you just – we were told to be patient at the Capital Markets Day some nine months ago in terms of the pace of recovery. Can you just give a bit of colour on what do you think is going to drive that recovery and the outlook for the brand operations in 2017?
And then secondly, just on the Nutrition business in China. Could you give us some updates and colour on how much of a drag to the performance in nutrition is the China business? And are you happy with your market share? You mentioned your strong share gains in e-commerce, but are you happy with the gains you are making in the Mum and Baby store channel? Thanks.

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

As far as *Yinlu* is concerned, as I indicated, I mean, it has been a drag on the performance of – on the growth performance of AOA for sure. I mentioned the figure of 290 basis points in terms of negative growth contribution for AOA. Wan Ling mentioned in the Capital Market Day in May that we need some time, nine months have passed since then, we have seen some progress. We know what we have to do. This is very much about innovation. We put in place as well new management at *Yinlu*. We launched quite a lot of new products. So we took other initiatives, I think that I'm personally positive about *Yinlu* for a certain number of reasons. We have a good distribution platform for beverages in China, which very few players have to start with.

Second, I think we are playing in the right category because we are in plant-based protein beverages, which is good, because this is a category which is really growing fast in China as in many other markets. So, we need to, I think, push further some innovation, but I'm optimistic as well, because when I saw, because it has been launched by *Yinlu*, what we have done with *Shakissimo*, which is ready-to-drink coffee and which is branded under the *Nescafé* brand. It has gone very well actually, so which gave us confidence as well on the capability that we have in terms of innovation.

Once again, we need a little bit more time and we'll provide you some colour in the coming months.

As far as Nutrition is concerned, in China, the market is not growing in the right direction because of pricing pressure, because of this new legislation that will be enforced from the beginning of 2018. That being said, to be clear, in Nutrition, we have slightly gained market share. So we are doing better than the market. We still ambition to do more, but I think it's a good starting point.

You know that we had lost in the past some market share online. We have started to regain market share online as well, which is a good indication. And we are really innovating and what we do with *Illuma* is a good indication of what we can do. So we remain positive on the category and we keep on investing on innovation with really an ambition to keep on owning the super-premium market, given that we have almost entirely left the mainstream category in China, which is essentially driven by price war and we're not interested in participating.

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

All right. Thank you. Next on the line is Mitch Collett from Goldman Sachs. Good afternoon, Mitch. Your two questions please

Questions on:	**AA Credit Rating** **M&A and Divestments**

Mitch Collett, Goldman Sachs:

Hi, there. Firstly, I'd like to ask you about the AA rating. Mark, are you convinced that Nestlé needs to hold on to that? And then secondly, you obviously said that with asset prices being full now may not be the best time to consider major M&A, but would you perhaps apply the same logic to divestments? And I appreciate you've already commented on the L'Oréal stake earlier today, but if now is the time of full asset prices, is it not also the perfect time to consider divestment? Thank you.

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

Thanks, Mitch. Look, as of today, really we have no change to announce when it comes to our credit rating. I think our first and primary focus is, when it comes to our balance sheet, strength to support future growth. We're also very interested in supporting that very long-term sustainable growth oriented dividend policy that I think has stood us in good stead, and that was particularly appreciated by our long-term shareholders, because it's the best way to share financial success with the shareholder base that is long-term oriented rather than a one-time buyback. So as of this point, we have no change to announce.

When it comes to M&A, look, there's really two reasons why this may not be the best point in time. One, clearly, is simply the price levels we see out there, and I think that doesn't take a whole lot of additional arguments. You'll see that with the multiples that are being announced. But then also to keep in mind, this is a time where I'm still basically finding my way into the organization, where I am working with the new team, where I am basically having to learn some of the fundamentals. Every time we make a major M&A decision, it's a major commitment. That's the way I see it. We're using shareholder money then, with very long-term effects that cannot be corrected short-term anymore if you make a mistake.

So I've always taken that very, very, very seriously and I continue to do that going forward. Hence, I think a certain amount of caution before you start with major transactions is the right way to go. The same of course on the flip side applies to divestments of any sort. Again, you have to think it through very carefully before you start acting because once you pushed that button, you can't take it back.

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

Okay. Thanks. Next in line is David Hayes from Bank of America Merrill Lynch. Good afternoon, David. Your two questions please.

Questions on:	**CAPEX and outsourcing production** **Change implemented by Mark Schneider since arrival**

David Hayes, Merrill Lynch:

Good afternoon, everyone. Thank you. So firstly just on CapEx levels moving forward. You talked I think today and in some of the interviews about reconfiguration of the plants and so forth. I wonder whether you're thinking more about outsourcing of production. And I guess related to that, whether you see that 4.5% of sales in terms of CapEx coming down as that process takes place?

And then secondly a broad question for you Mr. Schneider, if I can. You've been at Nestlé you say for five and half months now, I guess if you stand back and look at what one thing has changed at Nestlé since your arrival, can you tell me what you've implemented and what you've addressed? Could you just run through what that might be? Thanks very much.

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

Let me answer the question on CapEx, François speaking. You are asking, if we want to outsource some of the manufacturing. We do it already because we use already an extensive network of co-packers. So this is something that we are doing on a selective basis whenever it makes sense.

On the CapEx side, we had provided an indication in the past that we wanted to be within 4% to 5%, so which gives us a little bit of flexibility. CapEx is not necessarily negative by the way because it can drive growth as well. So, we are really supporting as much as we can the CapEx that is driving growth with good returns.

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

David, this is Mark. With regards to your second question, let me point out, I did join September 1, but I only took over the CEO responsibility January 1st. And so, the fall was really dedicated to getting to know the Nestlé organization, the people, the markets, and really finding my way into the company. And on those things, I tend to be fairly diligent. So it's all about looking first, thinking second, and then finally acting third. And so, is there anything I can point to that I would have changed, no. And by the way, this is not about I, it's about us, it's about the entire company, it's about building consensus.

So, clearly, the first priority was to arrive at this organization, be sure that with the executive board, with the leadership team, we are acting in harmony. And now, we basically roll up the sleeves and we will embark on the things we're telling you.

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

Next in line is Jon Cox from Kepler Cheuvreux. Good afternoon, Jon. Your two questions please.

Questions on:	Nestlé Skin Health in Q4 and effect on Group CAPEX, Working Capital and Free Cash Flow

Jon Cox, Kepler Cheuvreux:

Yes. Good afternoon, guys. Jon Cox, Kepler Cheuvreux. My first question actually to come back to the Nestlé Skin Health in the fourth quarter. It looks like it really fell off a bit of a cliff. You mentioned that there was some destocking. Why don't you just give us a bit of an idea of magnitude of that on the Group as a whole, if there was one? It certainly seemed to drag down the Nutrition and Skin business quite pronounced. You mentioned, I think, a 20 basis point impact on Group margin. Was that the case?

And then the second question really back to the sort of working capital, CapEx equation with free cash flow. You're now at 11.3% of sales, free cash flow to sales. Can you actually maintain that level or do you actually think we can continue to nudge up 10 basis points a year or so? Thank you.

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

Nestlé Skin Health, so I do confirm that indeed the impact at the trading operating profit level for the Group is about 20 basis points on this adjustment. The adjustment is corresponding to a decrease of about two weeks of inventory in the trade.

For the cash flow, working capital and CapEx at 11.3%, I think that as you can see, we have been able to maintain that level in a consistent way between 10% and 11%. I don't want to give any guidance for the future, but obviously this is something that we aim at maintaining high level of CapEx in the industry as we have been doing over the last couple of years.

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

Okay. Thank you. Next one is Martin Deboo from Jefferies. Good afternoon, Martin. Your two questions, please.

Questions on:	Long term guidance One-off costs and Structural savings guidance

Martin Deboo, Jefferies:

Yes, morning, everybody. Two questions for Mark, I guess. The first might be plea disguised as a question is on the long-term guidance. Mark, I'm intrigued why given the chance to think again you've gone for sales value guidance when pricing is, to a larger extent, out of your control and François-Xavier has pointed out that RIG is really the measure of the progress you're making. So I just value your commentary on why you've tied yourself to a long-term sales value growth target?

And the second question is on the interaction between the one-off costs and the structural savings. You're increasing the upfront investment in saving, but you're not changing the long-term guidance. You've asked us to take confidence from the fact that you're identifying incremental projects, but not to a point that you're willing to change the structural savings guidance. So again, I'd just appreciate your comments on that. Thank you.

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

Thanks, Martin. Look, on organic growth, I do believe, and this is independent of Nestlé, this is a general thought, that there is no truer and better yardstick of how your products and services are appreciated than organic growth including the value side of things. It basically means how much and how many of your products are being demanded by customers and how much are they willing to pay for that. So, yes, there are moments where pricing is better, there are moments where pricing is worse. But at the end of the day, you need to watch both sides of the equation, the quantity and also what people are willing to pay for your product. So there is no escaping from that, if that means right now in an environment where pricing is low then we have to live up to that reality, and then we have to see how we can differentiate our products and develop our products and services in ways, that over time, we can improve pricing. There is no escaping from that and if the news is unpleasant, it's unpleasant, we'll face it and that's basically where we are. I believe that with some of the actions I outlined, with some of the initiatives, I've seen inside the company, we have good ways to increase not only the attractiveness of our products and the pricing associated with that, but also the quantity side of the equation and that's the RIG.

So I think, there is a good prospects here and you're catching us right now at a very difficult moment, where I think, you have a bit of a perfect storm between the deflationary environment in key markets that we have seen in 2016 and then also some of these significant changes in the consumer goods industries, where some other key players have gone clearly for what I call commoditization of their plans and that's clearly a difficult moment in time.

Going forward, let me just clarify, for the single year, we're stepping up these restructuring costs and I use that first of all as an example of our commitment here to improve margins and second also to show you that when you step them up, by the amount we're indicating, that even if you only commit to a stable trading operating profit margin, there is some underlying progress here and that's something that should be appreciated.

Overall, I think what I am saying is very consistent with the message that Paul Bulcke and François Roger have articulated last year. Remember, there was nowhere an indication that these savings would come for free, in fact there they would be associated with a one-time cost and now we're basically getting into the period when these one-time costs have to be recorded and 2017 will be one of them. And I am sure there'd be more in 2018 and 2019. But do keep in mind, those are investments in the future and they will pay-off. So believe me, we wouldn't go into those, if they wouldn't make absolute sense for this organization

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

Thank you very much. Next in line is Patrik Schwendimann from Zürcher Kantonalbank. Good afternoon, Patrik

Questions on:	**Biggest potential for growth – Region and category** **Phasing on 200Bbs cost savings**

Patrik Schwendimann, ZKB:

Good afternoon, everybody and a very warm welcome to Mark Schneider. As the new CEO, where do you see the biggest improvement potential in terms of regions and in terms of product categories?

That's my first question.

And secondly, what will be the phasing of this 200 basis point of structural cost savings and what's your best guess of retention rate of it? Thank you.

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

Thanks, Patrik. Look, I think in terms of above average growth, everything related to Asia-Pacific and Emerging markets in general is still my long-term bet. And I think, this is where we're well positioned and we will see continued progress. You will have ups and downs, keep – I mean if you think about Latin America and how recently under some of the weakness we've seen in raw materials prices that continent has been struggling, but nonetheless, I think Emerging markets are very safe bet and that's where a lot of the RIG improvement over the years will come from, whereas I think in the established markets, it's more a premiumisation and differentiation game. So the balance between these two, the balanced growth between these two going forward is going to be of interest.

In terms of categories, I hinted at that in my presentation, I think that Coffee, Pet food and Water in particular, in addition to our new healthcare ventures are areas where we can see sort of above-average growth and we're clearly interested in advancing that growth, wherever we can.

In terms of the phasing of the cost savings program, I mentioned, none of this has accrued in 2016 yet. So it's fully available still, which is good news. A lot of preparation has gone in, you will see a little bit of savings kick-in this year, but then it'll start to come in to a larger extent in 2018, 2019. So it's not like, you have to wait and switch off the light till 2020. You will see continued progress in this direction and we'll keep you updated starting from this year through 2018 and 2019 into 2020.

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

Okay. Next in line is Jeremy Fialko from Redburn. Good afternoon, Jeremy. Your two questions please

Question on:	**Nestlé structure and potential for improvement**

Jeremy Fialko, Redburn:

Hi. I've just got one actually. Thank you for taking these questions. It's really about the structure of the business, obviously Nestlé is quite a complicated organization. You have the Zones, you have the globally-managed businesses, you have some regionally-managed businesses, you have some power in the countries and the categories, overlapping it. So perhaps, if Mark could give a bit of perspective on how well he thinks that structure is working, and where he thinks the main potential for improvement would be in terms of making Nestlé as more responsive organization? Thanks.

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

Jeremy, thanks. And yes, as someone that had a fairly steep learning curve since September, I do appreciate that question and I understand the background for asking it. So, do keep in mind the sheer size of the company. So at that size level, if you do a simple straightforward line organization, it simply is no longer sufficient. We have, in our portfolio, businesses that clearly have a very different geographic horizon from local to regional to global. And hence you need some flexibility and I think that's only symbolized in the various organizational structures we employ.

I think we have taken a big step now towards the end of 2016, beginning of 2017 with the new reporting structure regarding Nestlé Skin Health and Nestlé Health Sciences. So that's a good step and wherever it does make sense, we will certainly work towards simplified, fast structures to be sure that we can respond to the markets fast. But do keep in mind, again, especially for a business that has a global outlook or a regional outlook, a certain amount of coordination will be necessary and is simply the price of scale. There is also plenty of benefits to scale. So simply it's not only a negative here when you run a regional or a global business and so we will use organizational complexity where appropriate, but we'll certainly simplify where we can.

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

Okay. Next one is Alain Oberhuber from MainFirst. Good afternoon, Alain. Your two questions please.

Questions on:	**RIG by Zone** **Input costs**

Alain-Sebastian Oberhuber, MainFirst:

Yes. Good afternoon, gentleman. Mark, I have one question regarding RIG and then commodities. Did I understand you right that the RIG is gradually improving in AOA, remaining stable in Europe, and later also in the year improving in Latin America?

Then my second question is regarding the input costs. Do you expect an acceleration of input costs and I listen to some of your competitors, they guide for the second half of gradually or even steep increase of input costs. Do you see a similar situation for Nestlé?

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

Alain, thanks for your question. Maybe I can get started on the input cost and then hand it to François on the regional view. I think without sort of going into it raw material by raw material, the signs are pointing towards a flipping point here where we've seen a tailwind coming from raw materials including last year, and where I think this may be turning into a slight headwind for this year. There is always a delay because of course, we're using prudent hedging and so in a sense, it's not hitting you directly. But I do think the tide is turning when it comes to raw materials, and it either has turned or is about to turn, and that also is one reason why I think all our efficiency efforts going forward are very important because we will be facing a little bit of a headwind on the raw material side, once the cover that we have from hedging has run out.

François-Xavier Roger Nestlé SA, Chief Financial Officer:

Alain, good afternoon, François speaking. So, just on your question on the RIG by Zones, so indeed for Zone Europe and Zone EMENA, so we saw a good level of RIG, because this is the highest level that we experienced over a very long time. In AMS, there was a slight slowdown in terms of RIG, which is mainly coming from Brazil, as you know, we did some price increases at the end of June, which had the negative impact in Q3, but it started to improve in the later part of the year and Brazil being a large country for us, obviously, it put some pressure overall. In Zone AOA, we saw a sequential acceleration of our volume, throughout the year, which is positive. And so overall, as far as the RIG is concerned, we had the best level of RIG over the last three years with, as mentioned by Mark earlier, a little bit less in the later part of the year though.

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

Okay. That gets us to Toby McCullagh from Macquarie. Good afternoon, Toby. Your two questions please.

Questions on:	**Savings Retention Rate by 2020** **Phasing of growth for 2017 particularly Q1**

Toby McCullagh, Macquarie Capital :

Hi, there good afternoon. Yes, just the two. Going back firstly to the structural savings, you've given or you've confirmed the size of the growth savings and given guidance on the phasing of the structural savings. Could you also give any more of an indication of your current thinking of the retention rate by 2020? Is the 15% retention rate you flagged at the Capital Markets Day last year for NCE to-date a useful guide of the medium-term view?

And then the second question, short term one just on the phasing of growth through 2017. Can you give some help about how we also think about Q1, appreciate that's quite short term, but in the absence of the leap year benefit, the later Easter and also any sort of impact from the pull forward effect of an earlier Chinese New Year, should these any other technical factors make 1Q meaningfully weaker than the rest of the year, just thinking about the profile of 2017?

Thanks a lot.

François-Xavier Roger Nestlé SA, Chief Financial Officer:

Okay. Thank you, Toby for your question. As far as the retention saving for the gross savings, indeed when I talked at the Capital Market Day in May, I indicated that over the last three years, we'll let flow to the bottom line about 15% of them 1-5. You have noticed that in 2016, out of 80 basis points of margin improvement at gross margin level, we reinvested 50 basis points. So that gives you an indication of what we have done in the past and what we have done recently. But I don't want to give an indication in the future, because it depends of large number of factors from pricing capabilities to commodity pricing and so forth, as well as we don't necessarily have a full visibility on the need for investment in innovation, for example, for an horizon of 2019, of 2020, so we need to keep a little bit of flexibility there.

You mentioned a certain number of factors that may impact the short term. These factors are real – you talked about the leap year last year, you talked about Chinese New year, indeed it is true that to a certain extent we had something like two Chinese New Year last year and we may have somewhat zero this year for some businesses, which are more impacted by Chinese New Year like our confectionery franchise in China. That being said, we don't provide any guidance by quarter, but what you said is absolutely correct on the fact that some factors may influence more some period than others.

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

All right. It gets us to the last question from Alex Smith from Barclays. Alex, good afternoon.

Questions on:	**Pricing environment and pricing power of portfolio** **Marketing**

Alex Smith, Barclays:

Hi. Good afternoon. Maybe you could just go back to your earlier comments on the pricing environment. I think just in the latter half of the year, pricing didn't come through as quickly or as strongly as you expected. I was just wondering, if you could be a bit more specific as to where the pushback on that was either by category or by geography, was is the trade, was it consumer resistance, competition being unhelpful, and I guess, what makes you confident, it will be different in 2017, given that's where you're expecting the growth really to pick up? And perhaps maybe you could just comment on how you feel about the pricing power of the Nestlé portfolio today? I guess, it seems like some of your competitors were perhaps been more successful in getting pricing through in the second half.

And then a second question just quickly on marketing, I guess something we haven't discussed. I don't know, Mark, if you had the chance to look at the levels of marketing across your categories or geographies. I think you referenced Asia is being an area, you might be prepared to spend a little bit more, but I guess how do you think about marketing in terms of the return on investment you're generating, is there enough in digital? Is there enough consumer pull in the marketing? Thanks.

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

Let me answer on the pricing side. It came a little bit later than expected indeed and to a lower extent as well. It's a little bit difficult to answer that question, because pricing is a local decision, which mean that we don't decide in Switzerland the level of pricing and when we do the price increases. So it is left to the appreciation of our local affiliates, which is important, because it is largely linked to market forces and market condition in a given market. Not even in a given market but by category in a given market. So I'd say, I'm a little bit less worried about the timing of it, but the important thing is that it is eventually coming, and we saw some sequential acceleration from 0.4% of contribution in Q2 to 0.9% in Q4 and then we have put in place some additional pricing. So it is really coming. We see that part of it is coming naturally as well with competition because the – what we just mentioned a few minutes ago about the commodity cycles moving up now is something that will contribute to it, not only for us, but for our competitors as well. So, but we need to make those decision in a local context, not in a global context.

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

Alex, this is Mark. When I was referring earlier to this more selective backing of our growth categories and regions, I was not only referring to our marketing spend. This really applies to the full value chain from product development, some of the manufacturing investments, distribution, and yes marketing is included as well where appropriate. So again, it's basically putting our horsepower where we see the best payoff for that and again when it comes to regions, certainly Asia-Pacific is one of the top contenders when it comes to categories I had mentioned as examples, Coffee and Pet food and Water. So, I think, it's really about the full spectrum here, wherever we can help whether its CapEx or OpEx to support the growth in those spaces.

Specifically when it comes to that part of your question, traditional marketing spends versus digital, I think we have ramped up digital significantly and we're seeing good traction, good progress on that, as François had pointed out. I'm very comfortable with that, and I think again, where we can, establishing a direct channel of communication with our consumers is going to be important down the road. To be sure that they have to service levels, the communication, and sometimes even the direct transactions that they want. And so, we're focusing on that.

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

Okay. That brings us to the end of our Q&A. Mark, would you like to summarize from your point of view.

End of Q&A session

Slide: Title slide

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

Yes, first of all, really appreciate your attention and spending the time with us. And I just want to be very clear, when it comes to the guidance for this year, to the extent that that's being seen as conservative by some, we are strong believers in a straight meet or exceed culture. So, see that as a backdrop here to our commitments. We really want to be sure, you can trust in what we say.

Then going forward, if you sensed mid-term enthusiasm in some other things I was describing to you when it comes to our efforts to ramp up organic growth or when it comes to some of our efforts to improve operating efficiency, yes that's what it is. I'm truly encouraged by what I'm seeing. This is an organization that's stepping up to the plate; there is a lot of good things underway and happening. We will reinforce those and step into those. We will basically make that happen for you, and I'm sure you won't be disappointed. I certainly was very encouraged by what I saw.

Steffen Kindler, Nestlé S.A. Head of Investor Relations:

Thank you very much, Mark. Thank you very much to everybody on the line, who attended our call this afternoon or this morning, depending on which time zone you're in. If we couldn't answer all your questions, or if you need detailed follow-up, you know where you reach us in Investor Relations, you have all our numbers and e-mail addresses. And if not, we see you in one of the upcoming road shows or at the occasion of our Q1 earnings release. Thank you very much and good bye.

End of Transcript