2016 FULL YEAR RESULTS PRESS CONFERENCE TRANSCRIPT

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Speaker:

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

Slide: Title slide

Good morning Ladies and Gentlemen. Welcome to our 2016 Full Year Results Conference here in Vevey. For those of you following us by webcast welcome also. The conference will be held in English but you can follow it in French and German.

On the podium we have our new CEO since the first of January, Mark Schneider, and our CFO François-Xavier Roger. We also have in the room a few executive board members Laurent Freixe who is the head of Zone Americas, Marco Settembri head of Zone EMENA as well as the heads of Nestlé Nutrition, Heiko Schipper and Nestlé Waters, Maurizio Patarnello.

Slide: Disclaimer

I will take the safe harbour statement as read.

Now let's start. Mark you have the floor.

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

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Robin, thank you. A warm welcome to our press participants this morning, both here in the room and also out on the web. We certainly do appreciate your interest in our company. As you know, this is my first press conference as CEO of Nestlé, having taken over the position on 1st January this year.

What I would like to do in this presentation, in addition to sharing with you some of the key metrics for 2016 and also our outlook for 2017, I would like to talk about some of the mid-term growth drivers and value drivers going forward, and describe to you in more detail what we are about to do.

I am also very pleased to be joined today by some of our Executive Board members, our Zone Heads, the Head of our Nutrition and Waters business, and also David Frick, our Head of Compliance. Very happy to have them here, and if you have questions later on then we will be happy to answer some of your questions that refer to those areas in more detail by these Executive Board members.

My presentation will be followed by François Roger who will focus in particular on the 2016 Financials, and then after our two presentations, we will be happy to answer your questions.

Slide: Key Messages

With that, let me focus here on the key messages. 2016, I think the punch line is, the organic growth was certainly for our company at the higher end of industry, but it did come in, there is no beating around the bush, at the lower end of our expectations. There were two trends underway in the second-half of 2016. One is that our volume growth in some key markets decelerated. This is an across-the-board trend; this is not something that is specific to Nestlé. I think you are seeing this with all consumer goods companies. Then secondly, in terms of pricing, we did hope for the second half of 2016 that pricing was going to improve and it did. But it did not quite come in as fast and as strong as we would have hoped. Hence the growth at the low end of our expectations.

What we did see is a very solid operating margin improvement in this year 2016. Keep in mind that this includes restructuring expenses that are shouldered by the company, so on a reported basis we saw a 20 bps improvement on the operating margin. On a constant currency basis, because we are still facing some currency headwinds, it was 30 bps. When you look at the core Food & Beverage business, this is before some of our growth businesses and start-up businesses, it was actually 50 bps. A very solid operating margin improvement, and I think it is a good sign because, as you know, going back to the Investor Day last year, this is one of our key themes going forward, that we want to drive our operating margin

That brings me to 2017 at the mid-term. What I will do on some of the following slides is basically give you, as a newcomer, my perspective on continuity and change in the consumer goods industry. I will confirm to you that organic growth will remain the key long-term value driver for our company, and I will share with you what we are doing to support organic growth going forward. I will also reiterate our continued focus on operating efficiency and give you an update on our targets in this area.

Slide: 2016 performance highlights

Before we do that, just a recap of some of the key 2016 performance highlights. Sales of CHF 89.5bn, close to CHF 90bn. Organic growth, as mentioned, 3.2%. Real internal growth +2.4%. Real internal growth bodes really well for the future, if and when pricing does kick in. As I have said, in the second half of 2016, we have seen some promising signs and now let us watch in 2017 as those continue in some key markets. I think that real internal growth is the highest level we have seen in several years. I think it proves solid market share gains in some key categories and regions. That to us shows staying power; it shows real promise for the future.

Then on the trading operating margin, the +30 bps in constant currency I mentioned earlier, do keep in mind that that margin improvement already includes significantly higher restructuring expense in 2016. We had restructuring expense of round about CHF 150 million in 2015. We doubled that to about CHF 302 million in 2016, and that is already baked into that trading operating margin improvement.

Slide: Continuity and change

Let us talk about continuity and change in the consumer goods industry, and also my initial perspectives on Nestlé. Let me reaffirm first and foremost my personal commitment to the Nutrition, Health and Wellness strategy of the company. What does that mean? Upon my appointment, there was for my taste too much speculation about what this means for the company. Is there a strategy change? Are we turning into a pharma company, a biotech company? None of that applies. We have a very solid Nutrition, Health and Wellness Strategy. It has been articulated years ago. We have been doing good progress executing on that strategy. What it means really is we are continuously upgrading in our core Food and Beverage business the nutritional profile of our offerings, like salt and sugar reductions, for example.

In addition to that we are making good progress in scaling up our two new health-related ventures that is Nestlé Health Science and Nestlé Skin Health. Those two do not contradict each other. We have the resources, we have the management and we have the focus to do both of these things. In fact, they build upon each other because nutrition and health outcomes are closely related. That strategy that was articulated many, many years ago, it has really come to fruition right now because as you see good nutrition is recognised more and more as the key driver of long-term health outcomes. General knowledge about what constitutes good nutrition is spreading faster than ever before, and consumers are paying more attention to it. They are also willing to pay a premium for products that are perceived to be high-value in that regard. We are right on the trend. There is no need to change the strategy. It is all about putting it in place and scaling it up, executing well.

Second, I would like to talk about our commitment to long-term value creation. That to me means that we need to be focused on top line and bottom line at the same time. Let me take a step back and look at the consumer goods industry and a recent trend that we are seeing. What we are seeing is basically two extremes shaping up. There are the bottom line guys. That could be companies under private equity ownership, it could be companies under the pressure of activist shareholders that basically focus on the bottom line at all cost. That may be great in the short-term. There is a price that most of these companies are paying when it comes to organic growth. Do keep in mind, you can save cost only once. Afterwards, you are done. Then the question is, where is the organic growth, going forward?

Then at the other end of the spectrum, you are seeing lots of start-up businesses. You are seeing local companies. You are seeing venture-backed companies that basically are capturing on this recent consumer trend towards more local products, products that have organic appeal, local trends and short-term trends that are coming up. The other question is, how much staying power do you have? How sustainable is a trend like this? How scalable is it? Does it really make sense for a large company like us to bring up those trends and put it in through the market? Superficially, you might say we are in the middle, but actually being in the middle in this case is a good thing. In this particular sandwich the most valuable part is in the middle, and that is us. We believe we can offer a long-term attractive combination of both bottom-line development and top-line development that really underlines our staying power. I think by doing both, we can really deliver value in the long-term and that separates us from both of these extremes that are really more short-term oriented.

Next, our prudent approach to M&A. This company is certainly no stranger to M&A, and in fact, when you think about our position as the world's largest Food and Beverage company, a lot of that goes back to fairly daring M&A moves in the past decade, in the 2000s and the 1990s and the 1980s. This put us on the map to where we are today. Personally, I am also no stranger to M&A; I have seen my fair share of deals. Both the company and I have a very similar conclusion on this. M&A can be, at the right moment, the right tool to build our strategic position, but it should not be a goal in and for itself.

What you will see going forward is a prudent approach, no surprises from left-field, no deal just because we have not done a deal for the last month or so, or the last quarter or the last year or the last three years. It has to make strategic sense. There needs to be a good concept for how to integrate those companies. There needs to be good cultural fit. There needs to be a sound financial plan. You will see us putting that prudence to the table, and this is the secret to long-term value creation in M&A. Again, no surprises. Also let me confirm here and right now that we are not at the moment trying to impress the market or create headlines here with significant deals. Right now, the focus is clearly more on solid operational improvements that feed into the top line and that feed into the bottom line. Then what I would call tuck-under M&A that builds our local position or builds our position in various categories, but we are not swinging for the fences. We are not trying to land a home run with some impressive deal. Let me also tell you, when you look at the recent valuation, this is not right now the time to pursue big-ticket M&A.

Next, focus on people and leadership. I have been with this company for slightly more than five months now. I spent a lot of time travelling, visiting various locations and facilities, meeting with our Executive teams here at the centre and out in the field. I have to tell you, I am very impressed with this team. I am very impressed with where this team can go. I can tell you, together with this team, we will go places. I am mentioning that because again, upon the appointment last year for my taste, there was too much speculation about, will this signal a reorganisation? Someone was speculating, will I bring in, quote unquote, my own team? No. This is the team. This is the organisation. With this team, with this organisation we will go to these places. You will see it happen.

Next, transparency with all stakeholders. I deeply admire what Nestlé has done over the past decades when it comes to intensifying the dialogue with stakeholders at all levels, starting from local, being a good citizen in the communities where we are based, governments, regulators, NGOs, and then going all the way towards global. I am certainly committed to continuing that. Let me also underline, this to me includes investor-friendly communication. This to me includes avoiding surprises to our investors, and that also means signing up to the company's long-term successful growth-oriented dividend policy. No surprises here. I will step into that tradition. I will be very happy to step into that tradition.

Last, making choices and fast execution. Going back to those changes in the industry I described to you, this is a time of change in the consumer goods industry. I do believe, as I mentioned, that there is a really attractive space between the two extremes that some of our competitors are pursuing, between either cost-oriented or growth-oriented. We have to combine both, but we need to move fast. We need to offer a more attractive combination of cost and growth. This goes back to what has been articulated in the past. We will continue to work on that in the future. By offering a good combination, by offering an attractive combination of growth and margin, I believe there is a valuable space in the middle, and that will be one for the long run.

Slide: Organic growth key to long-term value creation

Let us go to the first side of the equation, and that is organic growth, which I said, we consider key to long-term value creation. Let me cut right to the chase: we do expect to deliver to you mid-single-digit organic growth by 2020. You will see on this slide a few of the things we are doing to get us there. The first one, investing selectively to support fast-growing categories and regions. This company is not one model of the company. It breaks down into a number of different regions and different categories. When we start with regions, think about Asia Pacific, think about these growth markets that have shown tremendous promise. I think it is a sign of confidence in Nestlé that we have more than 40% of our sales coming from Emerging markets where, yes, the last year was subdued, but mid- and long-term there are tremendous growth opportunities in those markets. We are positioned well to capture them. Asia Pacific, when you exclude some of the issues we have had in past years, like the noodle crisis in 2015 or the *Yinlu* situation in China in 2016, across the board we are seeing one success story after another. I think we will be building on those. We will be building on those in other fast-growing emerging market regions. By really selectively giving all of those markets everything they need to keep growing ahead of the market, we will help to raise the average growth profile of the company.

That same applies to categories. Think about categories, think about some of our leading growth categories like Coffee, like Pet food, like Water. Those are among the leaders in their fields or by far the leaders in their fields, particularly when it comes to Coffee. Here we have tremendous growth opportunities, and it is again about selectively putting our horsepower wherever growth is. I think the company has been doing that already. We will intensify those efforts, and hopefully with that over time by strengthening those growth drivers, we will also lift the average.

Let me at this point talk about Coffee in particular. In all modesty, we are not only having the leading market position worldwide, we are also bringing more assets to the table. We have the most iconic brand in coffee with *Nescafé*. We have the most exclusive and most advanced cartridge system with *Nespresso*. We have a far-reaching retail system in cartridges, with *Nescafé Dulce Gusto*. With our Professional effort, we also have a foot in the door when it comes to out-of-home opportunities. It is our job now to make those four initiatives work together, make the most of that, but frankly we bring the strongest brands, the best technologies to the table when it comes to Coffee. Let us make the most of that. This is not just a matter of pride. This makes good business sense, because Coffee is far above the Group average when it comes to growth, and it is also certainly a very profitable undertaking. We would do more in this regard and certainly defend and build our leadership position in that space.

Next, low-growth businesses. I mentioned *Yinlu* in China. Where we have issues, we will focus and have focused aggressively on fixing those. It is one thing to be disappointed about low-growth, low-profit environments. It is another thing to really step up and fix them. I think we have been doing that aggressively, and you will see progress in this area.

The next one, product and business model innovation. Let me tackle that in combination with the other one that is below and that is embracing digital opportunities. In addition to product renovations and meaningful innovation, digital is really giving us new ways to rethink business models, adding service layers on top of the products we are selling or opening up a direct channel to our consumers. After maybe coming a little late to the party, what you are seeing with the data from last year, and that François will describe to you in more detail, we have made significant progress now in upgrading our digital efforts. It is really showing. Basically from about 2-3% of our sales in 2012, we are now at about 5% of our sales coming from digital. We are really making progress in this area, and it is showing in our top line, and there is continued promise. Again, that area will see a lot of emphasis, will see a lot of effort going forward.

Then last but not least, portfolio management. If something does not fit our profile any longer, if we do not see mid to long-term hopes for top and bottom line growth, then yes, we are also no stranger to parting ways or buying our way into promising growth areas in Food & Beverage or in some of the healthcare businesses that we are building up. Please do note, portfolio management in this list is last. Portfolio management can be important at points in time to build up a strategic position or get out of a losing hand, but it should never be the first lever. The first lever as an operating company should be to do the other things that I just described, and we will stay committed to that.

Slide: Continued focus on operation efficiency

Let us come to the second side of the equation, and that is driving operating efficiency. There, I wanted to give my full support and really applaud the initiatives that we have seen under Paul Bulcke’s leadership and under François’s leadership that were communicated to you last year as part of the Investor Day. I wanted to fully reiterate and confirm the target that was articulated at that time. We are expecting at least 200 bps of structural cost savings by the year 2020. Not all of that, as was communicated last May, will flow to the bottom line; some of that will be reinvested into organic growth. That is in line with our growth-first mantra, and that is consistent with our long-term strategy. But again when it comes to structural cost in particular, when it comes to capacity utilisation, those are areas that are incredibly promising to us. Let me point out, those 200 bps are still fully available. We used 2016 to prepare our work in that regard, but the basis point improvement in our bottom line that you have seen in 2016 is not eating into that 200 bps promise for 2020. Again, we still have the full savings available to us. We will get there, we will lift it and again we will selectively reinvest in growth, and some of that will flow to the bottom line.

Slide: Outlook 2017

That takes me to the outlook for 2017 as my last slide. We are expecting organic sales growth of 2-4%. Mind you, the mid-point of that guidance, 3%, that is about the run rate in our organic growth that we have seen for the last three quarters. The mid-point is well-balance, well-centred. If you are wondering about the somewhat wide band, we are at a bit of an inflection point right now. We are seeing a lot of volatility in the market. We hope that pricing may come up and help us, but again, when and how exactly, and how that is going to be balanced against maybe turbulence items, volatility items, that are not known at the present time, that is really the big question. Hence, as a matter of prudence, it was good to leave us a bit of margin on both sides. We will keep you updated during the year. It is really important to me that you always know where we stand, and so we will do that as we go through the quarters. At this point, we felt that it was the prudent thing to do and build confidence in the company.

In terms of the profitability for this year we expect to increase our restructuring cost again significantly. I mentioned we had CHF 150 million in 2015. We had CHF 300 million in 2016 and now we are targeting about CHF 500 million for 2017. Even accounting for that increase, we expect to hold our trading operating margin constant, so that implies in and for itself a profitability increase before restructuring cost of about 20-25 bps. We are confident we can deliver that and hence we are committed to it. Mind you, also this is early days, so as and when we find additional accretive restructuring projects, we will update you on this during the year and certainly give you a sense on how we are doing with regards to our trading operating margin both before and after the restructuring costs. And last but not least, one thing that will not change is our commitment to underlying EPS growth and improved capital efficiency.

That is my part of the presentation. I hope it was a good way to signal to you two things. One is the sober assessment of where we are today based on 2016 results and what we can expect realistically in this year 2017, in the middle of still some remaining deflationary trends and a highly volatile environment, but then also coupled with specific actions on the growth front and the margin front that would get us to the picture I am trying to show you for the year 2020. That is a return to mid-single digit organic growth, coupled with a solid progress on operating savings to the tune of 200 bps or more. Thank you very much and now let me hand it over to François..

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

Slide: Title Slide

Thank you Mark. Good morning to everybody. I will walk you through our financials at a high level for the full-year 2016.

Slide: Increasing RIG, margin expansion, strong cash flow

We ended the year 2016 on a positive note, with a strong RIG at 2.4%, which clearly puts us at the higher end of the industry, and our growth stands at 3.2%. Our trading operating margin at constant currency increased by 30 bps, which is a level which is slightly higher than what we experienced over the last couple of years. It is important though, to mention that our trading operating margin for Food & Beverages, which covers 95% of our sales at constant currency, increased by 50 bps which is a level that we had not experienced for some time. Our free cash flow was strong at CHF 10.1 billion. It accounts for 11.3% of sales, which once again puts us at the higher end of the industry as far as free cash flow generation is concerned. Our underlying EPS stood at 3.4%, which is at the lower end of our expectations, and we are clearly working on it.

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

If we look at some historical perspective over the last three years I will start with RIG. RIG in 2016 was at the highest level of the last three years, so we saw some acceleration. RIG is important because this is about share of stomach for consumers. This is about share of shelf space in the trade. This is about real substance for the company. This is a good evidence, and this demonstrates our capacity to innovate, our capacity to invest in marketing, and R&D as well.

Pricing was low in 2016 at 0.8% but it accelerated during the year. We were actually at 0.4% of pricing in Q2, and we ended the year at 0.9%. We have put in place recently some new initiatives in terms of pricing. We talked last year about Brazil, but recently we have increased prices in Mexico. We have increased prices in the Philippines, in the UK in January, and even we are starting to put through some selective price increases in Western Europe.

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

Moving to the breakdown of our growth between the geographic areas. The figures you have here on this chart include both our zones and globally managed businesses. We had a healthy level of organic growth across the three regions. We had an attractive level of RIG between the three regions, even with some acceleration as far as AOA is concerned during the year. We experienced negative pricing in EMENA as a consequence of deflation, and we had negative pricing as well in AOA, mainly because of low dairy prices and a historically low level of milk as a commodity. In AMS, we had the positive pricing component, which is mainly coming from Brazil. As you know, we increased significantly our prices at the end of H1 last year.

Slide: Quality growth – Growth in developed and emerging markets

If we look at our growth between developed and emerging markets, we have the same level of RIG at 2.3/2.4% between Developed and Emerging markets. This is good for the Developed markets, but we see that certainly as an opportunity as far as Emerging markets are concerned, as we believe that we are in a position to deliver a higher level of RIG in Emerging markets. We had negative pricing in Developed markets, mainly because of deflation in Western Europe and in Japan, while we had positive pricing in Emerging markets. Although we had less than in previous years, mainly because of low Dairy prices.

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

We are really in the business of innovation, and this is one of the reasons why we have one of the highest levels of RIG in the industry. Innovation is absolutely critical for us, so we have a little bit less than a third of our sales which are coming from products that have been renovated or innovated over the last three years.

Innovation and renovation can take different shapes and forms. We can talk of premiumisation. This is what happened, for example, with *Les Recettes de l'Atelier*, which is a premium chocolate offering, which is now marketed in eight countries across Europe and which grew as an example by 22% last year. I could take another example, *Coffee-mate Natural Bliss,* which is really surfing on a new expectation and a new trend for consumers about naturalness. This is a business that has been growing last year in the United States by 42%. Innovation can have a more scientific component. This is what we are doing in Infant Nutrition with *Wyeth*, and with *Illuma*, more specifically in China. This product*, Illuma*, did not exist a little bit more than five years ago, and last year in China alone we reached CHF 900 million of sales and the product still grew by 34%. We clearly lead the super-premium segment there.

Slide: Quality growth – Leading in eCommerce

We do invest a lot in marketing. We invest in R&D but we do invest a lot as well in new channels of distribution and new formats of distribution, and e-commerce is one of them. We did quite a lot of presentations during our last Capital Markets Day to showcase what we do in that space.

We are happy to report that now e-commerce sales are contributing to almost 5% of our total sales while it was only 2.9% in 2012 which means that our e-commerce sales have increased by 18% last year in 2016. Even if we put aside *Nespresso*, which is a different business model by itself, our e-commerce sales grew by 34%. What is important to note as well is that we can measure our market share between online and offline. We can do that in about 70% of the cells, which is a mix of geographies and categories, where we have the information for online and offline market share. In 57% of these cells, we have a higher market share online than offline, which means that we are doing well in terms of e-commerce.

Slide: Trading operating profit +30 bps in constant currency

Moving to our P&L, last year in 2016 we improved our trading operating profit by 30 bps at constant currency. We benefitted from our savings programme, especially with NCE for example, where we delivered even more than CHF 1.6 billion of savings last year which is a higher level than what we experienced over the last couple of years. We still had some tailwinds from commodity pricing, but also less than in the previous years. We benefited as well somewhat to a less extent from portfolio management, mainly with the disposal of *Davigel* in France at the end of 2015 and the creation of *Froneri* in Ice Cream, mainly in Europe, at the end of 2016. As a consequence of that, our gross margin improved by 80 bps and we reinvested a significant portion of it, mainly in marketing and in restructuring as well and to a lesser extent in R&D. The reinvestment in marketing is what we have done as well over the last couple of years, so as to deliver a superior level of growth.

Slide: Continued focus on working capital

Looking at what we have achieved as well in terms of working capital, we did well in 2016 with another significant decrease of our working capital as a percentage of sales, which allows us to free up some cash. Our working capital as a percentage of sales almost decreased by another 2 percentage points in 2016. This data is not just a snapshot as at the end of the year. We are talking of the average over the last five quarters, which gives more strength to the value of this performance indicator.

Slide: Consistent industry-leading free cash flow generation

We have increased further our cash flow generation at 11.3% of sales, which puts us at the higher end of the industry clearly there. But even beyond the level that we have achieved, what is important to note is the fact that this is a sustainable cash flow generation, at a high level year after year.

Slide: 2017 focus

Moving to our priorities for 2017, Mark talked already about it, but to be maybe a little more specific we clearly aim at maintaining our volume growth which is a differentiating factor for us. We have had a high level of RIG over the last couple of years; that is something we want to maintain. We want to secure pricing as well. Pricing is one of the issues that we faced last year. Even if we started to see some acceleration, this is something that we are working actively upon. Once again, we have taken initiatives recently in countries like the Philippines, Mexico, even Western Europe or the UK.

Cost discipline is at the top of our agenda. We are going to continue what we have delivered with NCE, Nestlé Continuous Excellence, on this amount of around CHF 1.5 billion of savings a year. We are working on these nine structural initiatives, from the improvement of our asset intensity to the review of our manufacturing footprint, our consolidation of activities above market, as we are doing with procurement. We are actively working on this project. Capital efficiency obviously remains at the core of our daily activities. I will not repeat the guidance because Mark covered it already.

Q & A Session

Question on:	**Organic growth target**

Brian Blackstone, Wall Street Journal:

Can you just clarify what the difference is between 5-6% organic growth target and mid-single digits, since 5-6% seemed to be mid-single digits? Are you looking more 4-6%, 3-7%? What is the difference between what you are saying now on the target and what you have had before? Thank you.

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

I think mid-single digit mathematically softens us a little bit towards the low and the high end. That is the nature of it. In a more turbulent environment, to narrow it specifically to 5-6%, especially for something that you attempted to do several years out, is probably not the right thing. The underlying message, and that is what is important to me that we are not getting caught up in semantics here, the underlying message is the same, and that is, that there is nothing better for an organisation long-term than healthy organic growth. It drives opportunity inside the company. It keeps the team motivated and on their toes. It drives overhead leverage. It drives capacity utilisation. Therefore, it drives cost savings and experience curve effects in manufacturing. It does a whole lot of good things, and we are committed to that. I would not get so much hung up on, is this one tenth of a per cent more or less in one direction. However, the direction is the same, and that is the important thing. This is what keeps the herd running west. We will keep running west, no question.

Question on:	**Share buybacks**

Ueli Hoch, AWP Finanznachrichten:

Can you give us comments on share buybacks? Is this excluded in the next couple of years?

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

We have no announcement on that to make at the present time. We are committed first and foremost to a very stable and growth-oriented dividend policy as we have been in the past. Then of course, the next item on the agenda is supporting our growth and using capital that we have available for that. If something is left over, as you have seen in the past, there is a good tradition of sharing that with our investors in the form of share buybacks. However, again this is not the top priority, and there is nothing to announce at the present time.

Questions on:	**Reacting to changes in consumer behaviour** **L'Oréal stake** **New US President and potential repercussions for Nestlé**

Johannes Ritter, Frankfurter Allgemeine Zeitung

Three questions. In the past, Nestlé showed quite a sleepy attitude in terms of market trends, for example in China and in the US. What can you do to wake up maybe your employees, to be more alert to changes in consumer behaviour?

Secondly, what about the L'Oréal stake? Would you be willing to sell that one if a big acquisition was in view?

Thirdly, the United States with the new government, what is your position here? Will Nestlé be hit by a protectionist move going forward, and what is your personal view on the politics of Mr Trump, in view that you spent time in the US and probably had other experience in this country?

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

Let me start with the first one. I am not sharing the sleepy by the way, so even implicitly I do not want to support that. Yes, in a fast-changing consumer goods industry, being fairly perceptive and reactive to trends is going to be important. No matter whether that is China or

North America or elsewhere, this whole notion of having our antennas up, picking up a trend quickly and then capitalising on those trends quickly, that is a priority going forward. But again this is a time when the consumer goods industry is going through fundamental and unprecedented change, and so that is why I do not underwrite that sleepy word at all. I just need to for the record say that. Going forward however, this whole notion of speed and reacting to things quickly, that is going to be important to me, and we will certainly stress that in the organisation.

When it comes to *L'Oréal*, this is an asset that is worth about 10% of our total market cap, and hence this is a significant investment. Anything we would do on that would need to be done very prudently and in full accord with our Board of Directors. Do keep in mind that there is no short-term urgency. This asset has been delivering stellar financial returns to us in recent years, and we also consider it a strategic asset. Hence anything we would ever want to do on that would need to be pondered very carefully, and so again, nothing to announce today and at the present time.

On North America, I am asking for your understanding. I hold back on my personal views. We are not a political organisation. We are supplying Food and Beverages and consumer healthcare products to the people, and that already keeps us busy. There is little time for political commentary on top of that. The good news is that in most markets, and the US is no exception, we are benefitting from something that I would call the natural hedge. That is, our top line and then our manufacturing setup are in most markets pretty much in sync, and so compared to some other industries that have more of a hub and spokes model, we have some pretty good natural protection against protectionism. As a global company, it is easy to imagine we are more for free trade; that is basically right up our alley. If the model changes, we are well-prepared for that. Hence I do not see a significant down side coming from that.

Questions on:	**Restructuring – Cost and implications for jobs** **M&A**

Nathalie Olof-Ors, Agence France-Presse

When you have been appointed, obviously it brings a change to the company and it raises questions for your employees. How do you plan to achieve this increasing restructuring cost? Are there some consequences job-wise? Is it by managing your structure differently?

The second question is on M&A. You mentioned that it is not the right time to go for a big-ticket purchase. Could you give us some more colour as to why you believe it is not the right time?

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

On the first one, this company in the past has not shied away from what needs to be done to increase efficiency, but it also has a history and a culture of dealing with its employees very fairly, and will continue to do that. The restructuring levels that I am talking about are not unprecedented so we have seen that in the past at various times as well. This is not bringing something to the company that has never been seen before. But at the present time, I do think it is the right moment to undertake that and we will not deviate from our positive culture of dealing in a very fair and honest way with our employees that are affected. Mind you, not everything of that immediately has an employment consequence. Some of that also is fixed cost of a separate nature that is not payroll-related, so this is not then trying basically in a veiled way to announce here any significant lay-offs. The large amount breaks down into a very large number of individual targeted projects, so there is not one major situation here that we are pointing to.

On M&A, these are heady markets, and the combination of low interest rates and then certainly a lot of interest in the consumer goods area has led to fairly lofty valuations. Those things typically do not last forever and when I look at some other industries that I have been involved with in the past. Take healthcare, and look at that healthcare bubble between 2014 and 2015, that has come down. Anyone who bought in 2014 and 2015 with few exceptions lived to regret it. Anyone who waited now has dry powder. It is all about picking the right time, picking the right target. It does not mean that we would do no M&A, because at the low and mid-sized spectrum, there are a lot of things that are not subject to full global market exposure. You just have to be smart about it. At the end of the day, it is a trade-off between what you want to achieve now on the strategy front and what you are willing to pay for it. We will try to be smart about that.

Question on:	CEO using previous experience in Nestlé

Ralph Atkins, Financial Times:

What relevance and what use will you make of your experience at Fresenius in healthcare? Is that a direction you think you should be taking this company?

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

The one thing I have been always a fan of is good nutrition as a key driver of long-term medical outcomes. That is something that developed and brewed in me over a long period of time with Fresenius, but also before. In that trend I think I am not alone in that. In fact, check out in your own personal lives, check out with your friends and relatives. It is easier than ever to get information on what constitutes good nutrition, and people are getting more and more conscious about it. That is only the right way to go, because at the end of the day, our health is something that we individually need to take responsibility for, and nutrition more than anything else is the starting point for that.

My personal interest and the background is really very much in sync with what this company has been pursuing as part of its Nutrition, Health and Wellness strategy. As I said, upgrading in the core Food & Beverage business the nutritional profile of what we offer, in addition to scaling up these two businesses that we have on the consumer health front, and that is Nestlé Health Science and Nestlé Skin Health, I think that is a very consistent, credible strategy. It ties in, in my opinion, quite nicely with the background that I bring to the table.

Question on:	**Nestlé Health Science and Skin Health targets**

Angelika Gruber, Reuters:

Just again on the healthcare businesses, do you have a target or a vision about where they should stand in terms of sales in, let us say, ten years or five years?

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

I do not. Again, it is all about being ambitious, which we are, and prudent at the same time. Every time you build something, it is basically a horseplay between what I call greed and fear. You want to build on the one hand, but you also do not want to do major mistakes. It is all about that.

Questions on:	**Suitability of Confectionery and Frozen Food in NHW strategy**

Corinne Gretler, Bloomberg:

You mentioned a focus on not just you personally but everyone and their families and friends, the focus on good food and healthy food, and that being part of your past towards a Health, Wellness and Nutrition company. How does Frozen food and Confectionery fit into that picture? I understand that Confectionery can be seen as a treat and that can go into wellness, but just how do you see that fits especially the Frozen food business?

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

I am very happy to answer that, and actually, the answer is going to be slightly different depending on whether you talk about Frozen or Confectionery. For frozen first, let me give you a strong, strong sales pitch. From a food health and safety perspective, frozen next to fresh is the best way to preserve the nutritional benefits of food. In fact, let me put this very clearly. When you look at chilled it is just another form of slowing down the natural decaying process, but it does not stop the clock. Freezing does. Frozen in itself does not imply you are selling bad food. Frozen just means it is a form of delivery, and what you put in there is a different story. We have been doing significant efforts to increase the nutritional profile of our Frozen food offering, and as I look at the growth rates involved, consumers do respond to that and appreciate it. This whole notion Frozen therefore bad, I am not buying into this at all. In fact, from a food safety perspective, people should be more worried about chilled than frozen.

Confectionery is a different story, and look, again, checking with your family and friends, on the one hand we all have this interest in better nutrition. On the other hand, when we eat and when you watch your own eating habits, we are also creatures that are open to indulgence. In moderation, there is nothing wrong with that. Hence serving that to the extent that we have a huge heritage in this space, to me is not like a flagrant contradiction.

Questions on:	**Organic growth goals** **Health and Wellness businesses** **Maggi Noodles in India**

Notker Blechner, Börse online

Mr Schneider, why do you still keep the organic growth goals in the future? Why do you not abandon these goals after having missed them the last three years?

Second question, for a better understanding, will the part of health and wellness be increased in future or will you keep it stable?

Last question, about India, were the Maggi problems overcome last year? Thank you.

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

Let me comment on the first two and then maybe hand over to our Zone Head, Wan Ling Martello, to comment on India and particularly where we have been making significant progress.

When it comes to the growth targets, let me just be very clear. What we have out there for 2017 is a specific organic growth guidance, and that is numbers not words. Then we have an operating margin guidance, and that is the one we wish to be measured by. Anyone who would say the company misses its targets for 2017 is just not getting the story. The story is 2-

4% organic sales growth, and the trading operating margin, including then those restructuring items, are stable. What we are saying is that long-term, when it comes to 2020, we have plans in place, we have work in place, to basically get to mid-single digit organic sales growth. That is roughly what the ambition was in the past. What you are seeing for the past few years is an unprecedented situation where on the one hand, you had major deflationary trends in key markets, and on the other hand you also had significant change in the consumer goods industry. Those two coming together at a very fast pace led to some changes. We are adapting to those changes. We have started that already in the past years. It will start to pay off in the next few years, and hence we believe we can get back to where we were.

On your second question, let me just say remember this is a free market company so it is not about planning, let us do less or more of that. We try to do as well as we can in each of our segments. At this point, I cannot give you specific guidance, is Food & Beverage growing fast or health faster? We will try to do as well as we can in all of our segments and then if that segment grows faster, wonderful, if the other one grows faster, wonderful too. We need to be agnostic about this. We will try to do as well as we can for all of these segments. We will give those segments the growth funding that they need and then see what they make out of it.

Wang Ling Martello, Nestlé S.A, Head of Zone AOA

Good morning everyone, good to be here. First of all, before I address the question on India, I want to take a moment to thank my team in AOA because almost all the markers came back really strongly last year. We have a problem obviously in *Yinlu* that we are continuing to fix, but take a moment to thank team AOA wherever you guys are in the world right now.

On India, I am very proud of what the team has done. We are back to 60% market share, and the trust score for the Maggi noodles dropped to eight. It is now back to 90, so fantastic. In addition to that, our Nestlé India has launched several products in 2016 and so it is really thanks to Suresh and the team that Nestlé India is firing almost all cylinders at this point.

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

Thanks, Wan Ling, and let me reiterate that. The efforts that we have seen in that market to cope with that situation and also with some of the fairly recent issues in India like demonetisation in November and December, are just stunning. I think a tremendous effort by the team there.

Question on:	PetCare business

Maren Peters, SRF Radio:

I have a question concerning the Pet food market, you mentioned just one of the examples for still strong growth. Would you say this business unit is crisis-resistant? Where does this growth come from and what are your expectations for the future? Thank you.

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

It comes from some long-term secular trends that are basically playing around the world, and the one especially in the more Developed markets simply being premiumisation. People love their pets and like to do good for their pets, and so if you offer a better product, just like people spend more money on their own good nutrition, they also want to do this for their pets. Then for developing countries, it is simply all about what we here at Nestlé call caloric conversion, and that means basically the percentage of pet animals that are not just fed anything that just lies around the house, but rather get special pet food in a packaged form that will be offered by companies like us. Those twin trends are just incredibly powerful.

Now, like any consumer segment, they are subject to the economic cycle, no question about that, but you have two strong underlying growth trends and that helps a lot.

Question on:	Natural, Organic and healthier food

Erich Bürgler, Sonntagszeitung:

Can you shed some more light on your plans with more natural food, healthier food? Is it more about creating new products or changing existing products? How about organic food; is there a big potential for Nestlé in that field?

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

The answer to your first question is both. Upgrading what we have today is just as important as also trying to identify new categories. We are playing it both sides of the street in that.

When it comes to organic, yes, that is also a key opportunity. Mind you, organic is no contradiction to our delivery forms. It is basically all about the inputs that you are using, and so where we can, we are exploiting those opportunities as well.

Questions on:	Biggest risk for 2017

Katsuhiko Hara, Nikkei:

Regarding the volatile environment, and you mentioned that you are fairly resilient toward the protectionism, what is the biggest risk that you are aware of for 2017?

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

I do not think it boils so much down to one major risk here that we need to watch, but think back to a year ago as we all entered 2016. Who would have guessed what happened? Probably not that many people in the room, including all the experts, and we are still living in a very volatile environment where most of the uncertainties are coming from the macro or political space. I think that is not changing. Again, as we discussed earlier, when it comes to the protectionism side, our natural hedges and our setup in most markets will keep us protected, but when it comes to volatility in terms of currencies, raw material prices, consumer sentiment, we are subject to that, like anyone else. We need to make the best under those circumstances, and we are committed to that. There is not one individual particular risk that I could point you to.

Questions on:	Portfolio management Pricing

Silke Koltrowitz, Reuters:

I wanted to come back to the portfolio management. You have elaborated on that already, but we know that the previous CEO, Mr Bulcke, obviously already did an extensive portfolio review. I was just wondering, are you going to start all over again looking at all the different categories? Is that a possibility? You talked about Frozen, you talked about Confectionery, but is it an option to even exit some categories altogether, or are you really committed to all the Food & Beverage categories you have in your portfolio as they stand today?

Then there is a second question on, you were a bit cautious about when you say you expect pricing to pick up this year, but at the same time, you said timing, everything is still volatile. Can you maybe go back to that and say really you expect an improvement in pricing this year or is it just too uncertain to give any outlook? Do you have any guidance on raw material prices this year?

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

When it comes to the portfolio review, this is not something that you switch on or off. This is an ongoing activity, just like most of us take a shower in the morning or brush our teeth. This is something where every day, every month, every quarter, every year, you need to look at your portfolio. You need to look at your high performers, low performers. You need to look at what you believe you can fix and improve under your own steam, and things where ultimately, things may not fit the strategy anymore or may have unfavourable prospects for the long term. Again, this is not something that was at any point in time officially on or off. It is an ongoing process and I continue that process and step into some of the decisions and reviews that have been done.

When it comes to 2017, what should give you confidence, as François pointed out, is that very strong volume growth. That is the bedrock, and it really underlines the fact that in some key categories and areas, we are winning market share or defending our market share. Then it really is all about, when and to what extent does pricing kick in? These trends are notoriously hard to predict. You have seen this in the second half of 2016, where we were right on the trend but we probably overestimated, to some extent. Leaving ourselves a little bit of margin here does make a lot of sense.

Do I have a specific guidance or do we have a company guidance on raw material costs? No, we do not, other than to say that after seeing a few years of benign raw material costs development where there turned out to be a tailwind for us, it looks like we are at tipping point and they might in some areas turn into a slight headwind to us for 2017. Do keep in mind for quite a few of these positions, we enjoy a forward-going hedging, so it is not like immediately you have some pressure to your bottom line. But I think it looks like 2017, just like on the pricing front, may be a year of turning, could also be a year of turning on the raw materials front.

Question on:	**Creating Shared Value**

Satoshi Ebitani, Nikkei Business Magazine:

I just want to ask about this corporate sustainability, because I think Nestlé has this creating shared value concept, and then I think your former CEO and Chairman did a lot of work about this. I just want to know, are you thinking about this stance and this view?

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

A strong statement. I loved it ever since I heard about it, and this goes long before my joining the company. I think this creating shared value approach is a very sensible approach. It is level-headed. It is not corporate philanthropy. It is not do-good kind of thing. This is doing good and doing well at the same time. It goes back to how we design our business, how we tie in with local communities where we do business. Do keep in mind, in many places, very exotic countries, we tie in very closely to the agricultural community around us. A lot of livelihoods depending on us, and doing this in ways that both sides of the table are happy has been part of the history of this company. What creating shared value does is it gives a framework to it, and really something that travels well and reiterates our approach that we have practiced for many years. It puts some academic rigour and some measurable aspects to it, which I like very much. I will be very happy to step into that tradition and continue it forward.

End of Q&A session

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

Let me just say, first and foremost I appreciate your attendance coming here and connecting with you. Looking forward to many quarters and years in the future where we will be reporting to you as we execute on this path forward.

Let me also say in closing, thank you to our more than 300,000 Nestlé employees around the world who I think in a challenging year, 2016, have been showing tremendous commitment and effort and accomplishments to get us where we are and get us positioned now for the next steps forward in 2017 and beyond.

On a personal note, I would like to thank that team for the warm welcome that I received ever since joining, 1st September, and now taking over the CEO position in January. Appreciate it, and look forward to seeing you again soon. Thank you very much.

End of Transcript