

NESTLÉ S.A.

2017 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.

Dessi Temperley, Head of Investor Relations, Nestlé S.A.

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Dessi Temperley, Nestlé S.A, Head of Investor Relations:**Slide: Title slide**

Good morning and good afternoon to everyone. And welcome to our 2017 full year results conference call for investors and analysts. My name is Desi Temperley. I'm the new Head of Investor Relations and I'm looking forward to working with all of you.

I'm here with our CEO, Mark Schneider and our CFO, François-Xavier Roger. As usual, we first present our numbers and the business overview. And then we will open the lines for questions.

Slide: Disclaimer

I'll take the safe harbour statement is read.

And I now hand over to Mark Schneider.

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

Dessi, thank you and a warm welcome to our investor call participants today. As always, we do appreciate your interest in our company. I'd like to be very brief in my remarks today and to focus on some key metrics for the year 2017, the outlook for 2018, and then a few thoughts on how our actions of the year 2017 are positioning us for 2018 and beyond.

Before I get going I like, on behalf of the board and executive board, to thank our 330,000 employees around the globe for their hard work in the year 2017. Over and above the big the demands of the base business, it's been a very hard year because we kicked off and landed a lot of initiatives, a lot of projects, that position us well for the future. Everyone's commitment and hard work is duly appreciated.

Slide: Key messages

As we now move on to the key messages. By now, you will have seen in our press release and seen our organic growth figures, clearly no beating around the bush. We are disappointed about our Q4 organic sales performance. It came in somewhat softer than we had anticipated. As a result of that, our organic growth for the entire year 2017, while it is inside the guided range, came in somewhat on the softer side.

There were a few geographic areas that we have to point out. One of them is the North American market. The other one is Brazil. But then, when it comes to business categories, we have to point to Waters and Nestlé Nutrition. I regard most of these issues as transitory

issues or issues that we have already addressed and fixed. Hence, as I look at those four specific areas into 2018, I have more optimism.

There's also good news on the OG side in that I think our real internal growth has held up really strong. That's important because I think that bodes well when it comes to future growth opportunities. I think we've also seen a fairly even performance across our categories. So, all categories contributed to positive organic growth.

I also believe, and I will try to explain to you later in my presentation, that a lot of the actions that we kicked off in 2017, over and above what you can see in the OG number, will actually benefit us in 2018 and 2019 because many of our actions invariably are linked with time lags when it comes to actually feeding into OG.

As opposed to organic growth, most of the actions on cost tend to kick in faster. Hence, moving to the second bullet point, it should be no surprise that, there, we're getting more traction already. We've seen a very solid improvement of the underlying trading operating margin. In fact, we're slightly ahead of our expectations and that puts us well on our track for the 2020 margin target.

So, going forward and looking at 2018 and beyond, the key focus will be on these two planks, one is the organic sales growth and the other one is efficiencies. And we'll pursue the various strategies and actions that we outlined to you as part of the London Investor Day.

We've also seen encouraging progress in 2017 when it comes to the implementation of our portfolio management strategy, but there in particular, as I will point out to you later in this presentation, there are some significant time lags till those steps will actually benefit our consolidated organic growth number for the group.

When it comes to the 2020 growth and margin targets that we laid out to you in London, I'm in position to fully confirm those to you. Again, I'll note this comes against the backdrop of the softer-than-anticipated fourth quarter. But when I look at all the underlying work that's underway and all of the initiatives that we have kicked off and the base development of our business now at the beginning of 2018, I actually have a lot of faith and optimism.

In addition to the numbers for the 2020 targets, I would also like to confirm all of the strategy items, strategy steps that we laid out to you as part of London Investor call. So, there's no fluctuation there. We're steadily executing on the plans that we laid out to you and we're making good progress.

Slide: 2017 performance highlights

The next slide is just a very quick recap of our 2017 performance highlights. So, sales of CHF 89.8 billion; organic growth of 2.4%; real internal growth, that's the one that's really at or near the top of the industry, at 1.6%. And then the underlying trading operating margin at plus 50 basis points. As you know, we introduced that underlying trading operating profit metric to you as part of our Q2 conference call last summer. I think over the year then, in line with the guidance that Francois had given to you, we've accelerated some of our restructuring spending. Hence, we are well on our path when it comes to our margin improvement projects.

Slide: Delivering on our commitments

The next slide talks about those various commitments that we're delivering on. I think that shows you that on many fronts we've been either initiating or implementing meaningful change in the year 2017 as we try to implement the strategy that we laid out to you. I will not go into all of these items in detail. Suffice it to say that at the centre of everything we do is the changing consumer, a consumer that's more than ever interested in good Nutritional products and the health benefits of Nutrition. Hence, I think fully validating our Nutrition, Health and Wellness strategy.

That consumer is on the one hand very willing to pay for premium products. Hence, we saw, as Francois will show you later on, encouraging progress on the premiumization of our portfolio. But that same consumer is also increasingly price sensitive when it comes to what they perceive to be exchangeable or standardized products. Hence, efficiency work is also needed to remain competitive in all aspects of our business. And of course, with digital tools as great as they are to be in direct touch with consumers, there's increasing transparency which also then leads to increasing price sensitivity.

So, around all of those items, all of those trends, we organize our strategies. When we talk about advancing organic growth through meaningful innovation and renovation or when we talk about increasing the efficiency levels in our company, that's really the mirror image of that changing consumer, the one that is expecting more and better innovation and more distinguished products from us on the one hand and the one that's also expecting great prices and efficiency on the other hand.

So, really, all of the strategies, all of these items we're pursuing are reflecting quite well the change in consumer landscape.

Slide: Clear path to achieving mid-single digit growth by 2020

What I'd like to do on the next three slides is to talk about our initiatives on organic sales growth, on efficiency, and also on portfolio management.

So, starting with organic sales growth. This slide is a recap of what we showed you in London. It's basically our steps towards the mid-single digit organic growth target that we have laid out for 2020. It's been updated for the starting point now in the year 2017 at 2.4%. This compares to the 3.2% that we accomplished in 2016. Hence, we fully acknowledge that the incline has become steeper. And so, the challenge is certainly a harder one than we – the one that we looked at last year.

On the other hand, for each of the three steps here – each of the three buckets where we expect growth from, we have laid out a few specific actions that we have now implemented in the year 2017 and I'm taking great hope from those that when it comes to 2018 and 2019 and beyond you will see those kick in and actually help us towards our mid-single-digit target.

When it comes to fixing the base business, I would like to point your attention to the stabilization of *Yinlu*. I think that was a sore point for a long period of time. That has been flagged quite often in earlier conference calls and analyst meetings. And a lot of work has been put into this situation in the years 2016 and 2017 in particular under the leadership of my executive board colleague, Wan Ling Martello, who is the Zone CEO for AOA. And I think it's really showing results by now.

So, in Congee, we're seeing some good meaningful recovery. Peanut milk continues to be challenged. But then we also use that manufacturing set-up that we acquired to launch our ready-to-drink Coffee products which are really flying in the Chinese market.

So, I think the initial actions here that we've taken one or two years ago are really starting to kick in now and we have good hopes here when it comes to the future development. The whole thing over time I believe will develop into a good case study of what we can do to actually stabilize and turn around a business.

The next bucket, portfolio management. This really summarizes the acquisitions that were announced in 2017, and also the disposal of U.S. Confectionery. As you know most of these transactions here listed in this bucket have already closed. There are two exceptions. One is *Atrium* under acquisitions, that one is expected to close towards the end of the first quarter. For the disposals, we also expect closing of the U.S. Confectionery transaction towards the end of the first quarter.

So, all of these acquisitions, all of these companies are really high-growth businesses that will over time contribute in some cases meaningfully to our organic growth. And the disposal of U.S. Confectionery will also lift up our average organic growth because its organic growth profile had suffered in the previous years.

The important point here though to remember is that this will only kick in with a certain time delay. So let's take for example again *Atrium* which I think is a very attractive deal that position us well not only from a strategy point of view but also from a financial point of view. When that transaction closes towards the end of the first quarter it'll still be a full year before it'll contribute to our consolidated Group organic growth.

So, assuming a closure on time, starting from the second quarter of 2019, you will see the organic growth benefits of this company, which is posting at the present time, mid-teen organic growth rates. So this is the way the accounting rules go. And as you apply those to the other acquisitions, the same holds true. Most of these deals have closed, but none of them is included in our organic growth figure yet. Take *Blue Bottle* which closed in the fall of 2017. It will not be counted then for our Group organic growth until most likely the fourth quarter of 2018.

On disposals, similar picture. Of course, the minute you close the transaction, it is no longer counted then towards the organic growth. But that closing for U.S. Confectionery is still a few weeks away. Hence, you will only see relief from the sale of U.S. Confectionery as from the second quarter 2018.

Moving on to the high-growth categories, I won't go into a lot of these examples by detail, but they show you that there's a lot of positive activities under way. I'm particularly proud of what we've done in the e-Commerce and digital arena, and you see that with very meaningful growth rates reflected here. *Nespresso* in the U.S. is making good progress with mid-teens organic growth, so very strong as well. *PetCare* in Emerging markets and also our premium sparkling water range is doing very well globally

Slide: Operating efficiencies driving margin improvement

Moving on to the next slide in operating efficiencies. François will cover this area in a bit more detail in his presentation. I'm just focusing here on this structural cost development over the years. And I think one of the accomplishments of the year 2017 is that we were able to bend that cost curve for the first time in a while. In fact, when you look back to the past decade, most of these years, structural costs have been increasing at a faster clip than organic growth. In some cases, that was fully justified because some investments were

involved in these numbers and that's worth pointing out. But, nonetheless, the math holds true that as a percentage of revenue, our structural cost kept increasing.

So, bending that curve, doing that kink here from 2016 to 2017 I think was an important accomplishment. As you know, we're committed to pursuing that further as we're trying to improve our structural cost percentage of revenue. So, good promising work under way and I think we're on a solid path here and Francois will later on cover that in more detail.

Slide: Active portfolio management

On the next slide, I'm getting back to the portfolio management aspect. While as you know, we've done a number of transactions, I would like in particular to compare the disposal of our U.S. Confectionery business to the purchase of *Atrium*. Both of them are in the North America theatre, as you know. When it comes acquisition, I price both of them on the \$2 billion to \$3 billion range, so roughly similar. They're both shade under a \$1 billion when it comes to the sales volume.

When that group of transactions, when these two transactions are completed, there will be a net benefit after that year lapping time that I talked to you about earlier, of about 20 basis points when it comes to organic growth. So, there's clearly a benefit and there's also margin benefits since the *Atrium* business is higher margin than our U.S. Confectionery business.

Most important, though, it will certainly upgrade the composition of our U.S. portfolio and our North America portfolio towards one that is more Nutrition, Health and Wellness inspired, more in line with where today's consumers are going, and what they demand from us. And hence, I think strategically, it puts us in a much, much nicer spot closer to where we want to be.

So, good range of transactions and as you know, when it comes to the continued evolution of our portfolio, we're not done. We had announced just last week a further acquisition called *Terrafertil* based in South America, which is active in natural and organic foods in various South American markets. And as you saw in today's press release, we are also exploring strategic alternatives for our *Gerber* Life Insurance business, which is based in the U.S. So, this is an ongoing process and I think we're well on our way towards a meaningful, but also prudent portfolio management strategy.

Slide: Outlook 2018

With that, I'd like to go to the 2018 outlook. We are confirming our sales growth expectations in the 2% to 4% range. The underlying trading operating margin is going to be improving in line – fully in line with our 2020 target. We're expecting restructuring costs of around CHF

700 million, so pretty similar to the levels you've seen in 2017. And we are also, of course, continuing to work on increasing underlying EPS and capital efficiency. You know that's a mainstay of our guidance that you've seen in earlier years.

So, that summarizes my presentation. Over to François, and then we'll be back for Q&A. Thank you.

François-Xavier Roger Nestlé SA, Chief Financial Officer:

Slide: Title slide

Thank you, Mark. Good morning or good afternoon to all.

Slide: 2017 performance highlights

Let me start with the highlights for 2017.

We finished the year with organic growth of 2.4%, which was within our guidance range, although in the lower half. RIG was at 1.6%, placing us at the high end of the Food and Beverage industry. Pricing in today's environment continues to be limited, yet still at the same level as the previous year at 0.8%. Underlying trading operating profit margin, which is before restructuring, was up 50 basis points in constant currency, above our guidance.

Free cash flow amounted to 9.5% of sales at CHF 8.5 billion. Underlying EPS increased by 4.7% on a constant currency basis, to CHF 3.55. The biggest driver of the earnings growth was the margin improvement.

Slide: Broad based growth across geographies

Looking at the geographic breakdown of our growth, this slide shows the sales development for our Zones, as well as our globally and regionally managed businesses combined. Our growth was broad based both in terms of organic growth and RIG, with all geographies in positive territory.

In AMS, we have seen some slowdown of OG in the latter part of the year, coming from both North America and Brazil. In North America, weak consumer demand has affected most of our categories from Waters, to Food or even Infant Nutrition. In Brazil, we had some pricing pressure as milk prices when down by close to 20% in the later part of the year.

EMENA sustained good momentum, especially in the last two quarters in the year, supported by strong RIG. Pricing in Western Europe stabilized after two years of deflationary pressure.

AOA has had another year of improved growth, helped by stronger performance in China. However, RIG was softer in the last quarter mainly due to the late timing of Chinese New Year.

Slide: Accelerated RIG in emerging markets

Looking now at our performance split between Developed and Emerging markets, both made positive contributions to our overall growth. In the Developed markets, we had broadly stable organic growth throughout the year, pricing stabilized and was flat for the first time in a number of years as we moved out of deflation. RIG in the fourth quarter was impacted by softer performance in North America across most categories. In the Emerging markets, RIG has improved in 2017. However, pricing in the second half was limited due to a lower contribution coming from Latin America as well as Sub-Saharan Africa.

Slide: Zone AMS

Moving now to the details of each zone on globally managed businesses, and I will start with Zone Americas. We finished the year with sales of CHF 28.5 billion. Organic growth was subdued at 0.9% with RIG of 0.2% following a slowdown in North America. Pricing was soft at 0.7%, reflecting a lower contribution from Latin America, mainly coming from Brazil.

Looking at the two sub-regions in more details, organic growth in North America declined in the context of soft consumer demand and an overall difficult trading environment. The stagnant growth in many of our categories in North America translated into slightly negative RIG throughout 2017, although pricing did remain positive. However, if we exclude the Confectionery business, organic growth in the U.S. was flat.

In terms of categories, Coffee creamers and PetCare generated growth in North America, offset by declines in Confectionery and Ice cream. As you know, we have recently confirmed the sale of our U.S. Confectionery business.

Moving on to Latin America. RIG improved moderately for the region, but organic growth slowed down since the Nine-months due to a lower contribution from pricing, largely due to Brazil. Pricing in Brazil was heavily impacted by deflationary pressures, particularly for Dairy, which is our largest business in Brazil, where we saw the price of milk fall by close to 20% in the second half of the year. Mexico finished the year with mid-single digit growth, helped by an improvement in RIG in the last quarter. Nearly, all categories contributed positively to growth in Mexico.

PetCare continued to be a highlight in the region sustaining double-digit growth throughout 2017.

The Zone's underlying trading operating profit margin improved by 60 basis points to 20.3%.

We continue to see the benefits from our restructuring project mainly in the U.S. as well as ongoing operational efficiency savings. These helped to more than offset higher commodity costs and some headwinds coming from foreign exchange.

Slide: Zone EMENA

Moving now to Zone EMENA with sales of CHF 16.5 billion. Organic growth increased by 2.3% as the Zone finished the year with good momentum. The final two quarters of the year had organic growth above 3%. These has been helped by improved pricing in Western Europe which has stabilized following several years of deflation.

All three sub-regions show positive organic growth on RIG. If we look at the dynamics by category for EMENA, PetCare continued to be a good growth driver delivering mid-single digit growth with strong results in Russia. For Coffee, organic growth improved in most market in the second half. And Confectionery, Culinary, and Dairy all delivered improved year-on-year growth helped by successful product launches.

Underlying trading operating profit margin increased by 80 basis points in EMENA. The improvement was driven by price increases portfolio management, and operational efficiencies, all of which more than offset the impact of higher commodity cost.

Slide: Zone AOA

Moving now to Zone AOA with sales of CHF 16.2 billion. Organic growth improved for the third year in a row finishing at 4.7%. The timing of the Chinese New Year was unfavourable, and therefore impacted slightly the fourth quarter. Pricing during the year was broadly stable at 1.8%.

China returned to positive organic growth on a year-on-year basis despite the timing of Chinese New Year. Coffee and Ready-to-drink beverages were the highlights and *Yinlu* started to show early signs of stabilization.

Developed markets in AOA saw strong RIG especially in Japan which was partially offset by negative pricing. Southeast Asia sustained good RIG-driven growth supported by *Milo* and Ambient Dairy. South Asia delivered high-single digit organic growth in spite of some pricing pressure coming from the implementation of GST in India. Sub-Saharan Africa saw double-digit growth with positive RIG and pricing.

The Zone's underlying trading operating profit margin increased by 20 basis points to 20.1%. Operational efficiencies and structural cost savings more than offset and increase in input cost.

Slide: Nestlé Waters

Moving to our globally managed businesses and starting with Nestlé Waters. We finished 2017 with sales of CHF 8 billion and organic growth of 2.1% following a challenging second half of the year.

RIG decelerated to 1.8% for the full year, reflecting softer growth across both North America and Europe. The contribution from pricing remained limited at 0.3%, with deflationary pressures across several developed markets.

Looking at the developments by region and starting with North America, we finished the year with slightly positive organic growth, driven entirely by RIG while pricing was negative. The regional brands in North America faced weak demand and pricing pressures impacting growth. Europe maintained low-single-digit organic growth and Emerging markets overall delivered high-single-digit growth, driven by Asia and Latin America.

The international premium brands continue to see high-single-digit growth, *San Pellegrino* and *Perrier*.

Moving to our margin, underlying trading operating profit margin for Nestlé Waters rose 20 basis points to 12.7%. While we faced higher commodity cost in 2017, savings were delivered thanks to operational efficiencies and structural cost savings.

The strong growth of international brands also drove portfolio premiumization, and therefore, higher profitability.

Slide: Nestlé Nutrition

Next is Nestlé Nutrition, with sales of CHF 10.4 billion. Organic growth was soft at 1.1%. RIG improved on a quarter-by-quarter basis during the year. It recovered from a negative first half of the year to reach 2.3% in the last quarter. Pricing, however, was very limited at just 0.2% with some deflationary dynamics in the second half of the year.

As you know, we announced in November that we will be operating our Infant Nutrition business with a different organization. As of January this year, we will move from a globally-managed business model to regionally-managed business that will be reported within the respective Zones. You might remember that we did a similar move with our Professional business in 2016.

Looking at the dynamics by region. In China, organic growth remain soft but saw some improvement in the back half of the year. Our *NAN* and *Illuma* brands continue to perform well, leveraging on their strong brand equity. Organic growth in the U.S. was slightly positive essentially driven by pricing. The re-launch of *Gerber* including organic and natural ranges is in progress. Our cereal range in the U.S. continues to do well. Brazil was negative with price decreases implemented in the second half of the year in response to significant deflation in the local dairy market of close to 20%.

South Asia and the Middle East made strong contributions with mid-single-digit growth supported by strong RIG in both regions.

Moving to the bottom line. Nestlé Nutrition's underlying trading operating profit margin decreased by 10 basis points. This is mainly coming from lower profitability in Brazil where pricing was significantly impacted by deflationary pressure.

Slide: Other Businesses

Finally, we have other businesses which includes *Nespresso*, Nestlé Skin Health and Nestlé Health Science. Sales for these three businesses combined were CHF 10.2 billion with organic growth improving year-on-year to 4.8% driven by a stronger RIG contribution of 4.5% versus the previous year. Pricing held stable at 0.3% versus 2016.

I will start with *Nespresso*. We sustained a healthy mid-single-digit growth led by mid-teens growth in the United States, as well as solid results in both Europe and Asia. Innovation remains a key driver to success and both our consumer and out-of-home business grew well. The business continues to expand geographically as we entered eight new markets last year. We also introduced the *Vertuo* system in the UK and in Australia, building on previous successful launches in the United States, in Canada and in France. The range grew well and it presents a complementary offering to our existing range with its long cup coffee format. Overall, *Vertuo* contributed to almost one-third of *Nespresso's* overall organic growth.

Nestlé Skin Health improved its organic growth versus the prior year, delivering an accretive contribution to the group, led by a good performance in the aesthetic and corrective business. Nestlé Health Science maintained mid-single-digit growth, driven by Medical Nutrition, which delivered nearly 8% OG.

The underlying trading operating profit margin for Other Businesses increased by 50 basis points to 15.9%. This was driven by an improvement in Nestlé Skin Health, in particular. Also, the level remains below our plans. We also made additional investments for our

geographic expansion from *Nespresso* with the opening of 18 new boutiques around the world in 2017.

Slide: Growth by products

Moving now to our organic growth by categories. Our growth continued to be broad based. The contribution by category ranges from 2% to 3.6%, so relatively close to the average of the group at 2.4%. The exception is Confectionery with year-to-date OG was slightly positive impacted by two factors, the timing of Chinese New Year as well as negative growth in the U.S. Excluding the U.S. business which we are disposing of, the organic growth in Confectionery was 0.8%.

Powdered and liquid beverages, the full-year organic growth was a robust 3.6% which represents an acceleration in the half year. Coffee sustained its good RIG and pricing momentum in the fourth quarter. And Cocoa-based beverages a little bit well driven by Milo.

Water, I have already covered. So, I'll move directly to Milk products and Ice cream which had a positive OG and RIG driven by Coffee-Mate which continues to be strong in the U.S. as well as Ambient Dairy in Asia and in the Middle East. We saw a slowdown in the fourth quarter largely due to Brazil where we were affected by Dairy deflation.

Nutrition and Health science already covered in my previous presentation. For Prepared dishes and cooking aids, Ambient culinary continued to be strong with mid-single digit growth led by *Maggi* which did especially well in many Emerging markets. Frozen meals in North America was positive, but Pizza and *Hot Pockets* were negative as a mainstream segment of these categories declined.

And finally, PetCare had RIG-driven performance with double-digit growth in Emerging markets. For PetCare in North America we finished the year with slightly positive growth supported by cat food.

Slide: Underlying TOP margin by products

Moving now to the profit evolution by product group. While most categories have been affected by the increase in commodity prices, the benefits from our cost saving programmes and more efficient marketing spend have more than offset this impact with nearly all of our product groups showing improvement over last year. Powdered and liquid beverages, Nutrition, and PetCare continue to deliver strong overall margin for the group.

The only exception where we had a margin reduction was in Milk products and Ice cream. We saw a 60 basis points contraction of the margin largely related to the increase of milk prices outside of Brazil.

Slide: Gross margin impacted by higher input costs

Moving to our gross margins, so following four years of progressive improvement, our gross margin showed a slight contraction last year, but remained at an attractive level reflecting the power of our brands and our efficiency programs.

We incurred in 2017 around CHF 900 million of additional commodity costs. We have been able to offset more than half of this amount through efficiencies, pricing and mix at gross margin level.

For 2018, we start to see signs of a moderate price decrease in our commodity basket.

Slide: Underlying TOP +50 bps driven by structural cost reduction

If we take a look at the full year underlying trading operating margin which is before restructuring, it increased by 50 basis points in constant currency which is an acceleration over previous years.

The chart shows the components of our underlying trading operating margin evolution. Cost of goods sold and distribution was a 70 basis points headwind.

As mentioned earlier, commodity costs were significantly higher last year by CHF 900 million. This is a meaningful swing compared over the last few years where we benefited from a decrease of input cost.

At the same time, pricing, mix and structural cost reduction helped to mitigate the commodity headwind. Marketing expenses were slightly down on a constant currency basis. The main driver of this decrease comes from marketing efficiencies through reduction of agencies on consolidation of activities above market.

Slide: Underlying EPS +4.7%

Moving to underlying EPS, and I will start with the underlying trading operating margin, which increased by 40 basis points on a reported basis to 16.4%. We have increased our restructuring and related expenses by CHF 900 million last year, consequently bringing the trading operating profit margin down by 60 basis points, in line with our guidance.

Net profit was impacted by an impairment of goodwill of CHF 2.8 billion, which was for Nestlé Skin Health. We have discussed already the challenges that this business is facing. And

consequently, we took an impairment to reflect the current prospects of this business. As you know, we are working actively to turnaround Nestlé Skin Health by simplifying the organization and by optimizing our manufacturing and R&D footprint.

Another important factor impacting our net profit and consequently EPS relates to the change in the corporate tax rate in the U.S. In 2017, we recorded a one-off tax gain of around CHF 850 million related to deferred taxes in the United States.

And as of 2018 – as from 2018 onwards, we will realize a recurring yearly tax benefit of around CHF 300 million, which is equivalent to about 200 basis points of underlying tax rate reduction for the entire group.

Slide: Further progress on working capital

Moving on to working capital, the 60-basis-point decline show that over the last 12 months, we continue to make improvements on our working capital as a percentage of sales on a five-quarter average calculation even on the back of year 2016, which was exceptionally strong in terms of decrease. We have continued to make progress in spite of increased inventory levels when commodity prices went up.

Following several years of significant progress in working capital reduction, we continue to see opportunities for further improvement in the future. But as expected, the improvements will not come at the same exceptional pace of 2016. This improvement in working capital does not drive a cash flow improvement in 2017 as our balance sheet position in December 2017 does not show an improvement versus the previous year. The balance sheet position is only a snapshot for one day of the year.

Slide: Working capital main driver for FCF reduction

Free cash flow declined by CHF 1.6 billion from CHF 10.1 billion to CHF 8.5 billion. The largest contributor to this decrease was working capital as we did not enjoy a benefit in 2017 from working capital reduction, as I just indicated, as we did while we did it in the previous year in 2016.

Our working capital went down steadily during the year, but was marginally up as of 31st of December after a CHF 2 billion improvement in 2016.

Slide: Net debt increased to support share buyback and dividend

We have increased our net debt by CHF 4 billion in 2017. We have returned more than CHF 10 billion to our shareholders of which CHF 3.5 billion represents our share buyback program which we launched last year.

In 2017, we purchased over 40 million shares for consideration of CHF 3.5 billion. This leaves CHF 16.5 billion for the share repurchase program still to be completed by the end of June 2020.

Our free cash flow last year was CHF 8.5 billion

Slide: 2018 focus

To conclude, Mark had already presented to you our outlook for 2018, but I would like just to finish my presentation by reiterating our priorities. We will focus on maintaining volume growth at the high end of the industry while improving our margin, in line with our 2020 targets.

We will continue our focus on our structural saving program as it is a key component to deliver our margin improvement while continuing to invest for growth. We remain committed to improve capital efficiency and EPS.

I'm now handing over to Dessi for the Q&A session.

.Q & A Session

Dessi Timberley, Nestlé S.A. Head of Investor Relations:

Thank you, François and thank you, Mark. With that we move to Q&A and we open the line for questions.

The first question comes from Jean-Philippe Bertschy from Vontobel. Jean-Philippe good afternoon. Please go ahead with your question.

**Questions on: Nestlé Skin Health goodwill impairment
Weak growth in U.S.**

Jean-Philippe Bertschy, Vontobel:

The first question is related to Nestlé Skin Health goodwill impairment. If you can give us now your strategy and your vision with regards to this division which has really destroyed some value over the past years, especially with regards to the goodwill impairment?

The second one would be related to the U.S. weak growth, and I think the outlook for PetCare doesn't look that great with regards to the goodwill assumptions on your report, as well as your reference to Ice cream and Frozen food overall with negative growth. Can you maybe make an update on that?

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

Jean-Philippe, this is Mark. Let me talk about Nestlé Skin Health first. I think what you're seeing in terms of our accounting treatment is a reflection, as François said, about the current prospects. I think I used the London Investor Day to give you some of the history and some of the reasons about why we are where we are.

We did mention that we addressed the situation fairly aggressively. We have a new leadership team in place that started last winter and took a very decisive, very energetic action. We're in the middle of a fairly comprehensive restructuring program to make the business more efficient. Execution of that is going well. But I also pointed out – and this has not changed since September – that this is probably not the best time to strategize. It is all about putting in that restructuring program in place, making sure it works, making sure it sticks, and it delivers the expected results.

That's the best thing we can do for the business right now. Then, we need to see where we take this thing going forward. But I think, from that perspective, our view has not changed from the moment that we discussed this in London in September.

When it comes to the U.S. business, as a snapshot, I know that some of these growth figures are disappointing. I think, going forward, when I look at some of the underlying projects that we have in place, be it PetCare or be it Ice cream or be it our Frozen section, I do believe that we have a lot of good work here in place that will pay benefits in the years 2018 and 2019. And I know it's always hard to argue this against the backdrop of a quarter that has been on the soft side, but, again, it's about the forward-looking aspect of these projects and they give me confidence.

Jean-Philippe Bertschy, Vontobel:

Thank you.

Dessi Temperley, Nestlé S.A. Head of Investor Relations:

Next one on the line is Warren Ackerman from Société Générale. Warren please go ahead with your questions.

Questions on:	Organic growth and high growth categories Structural savings
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Warren Ackerman, Société Générale:

Good morning, Mark. Good morning, François. It's Warren Ackerman here at SocGen.

Two for me. First one for Mark. On the top line, Mark, you said that at 2.4% the incline now to get back to mid-single digit by 2020 is a bit steeper and more of a challenge. Are you any less confident about that given the starting point is much lower? And then, specifically, can you talk about Nutrition or infant Nutrition, which is supposed to be one of your high-growth categories but only grew 1% in the year. Are you disappointed by that and what can you do to really get that division motoring?

And then the second one is for François. Can you talk a bit about the structural savings where they came from in the year and what the priorities are on structural costs in 2018? And maybe if you could us some idea what that 19.2% number on structural cost savings, where do you think that could actually get to in the course of time? Thank you.

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

Warren, thanks. On the first question, a very clear statement. We stand fully behind the expectation for 2020. I stand behind it and I have the same amount of confidence that we're going to get there. So when I was saying that the incline is getting steeper, I was just acknowledging the sheer math – the fact that in 2017, organic growth was not as good as in 2016. But as I said, I have to judge it not as a backward looking snapshot of what our organic growth was. I have to judge it from the initiatives we have under way and how that will pay off in the next few years. Those give me a lot of confidence.

Now, specifically, on Nutrition, I am with you. For a category that we see as a growth category we cannot be happy with that growth rate. Absolutely, not. But you'll also know going back to some of the announcements we made in the fourth quarter, we have already taken fairly energetic action when it comes to giving this business a new structure which I believe gears it for much better growth because it kind of plants in the business more with our zone management structure, makes decisions faster, brings it closer to the markets where we have to win. Some of these benefits, as we are looking at initiatives, they are already paying off. Things are happening faster. There's more transparency. And yes, we typically have a quarter or two when you do a reorganization like this where there is some diversion. But once that's in place then you hit the ground running and that is my expectation going forward.

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

Good afternoon Warren, François speaking. On the structural cost, I think that we have reached an inflection point last year. As Mark indicated earlier in his presentation, we had an

increase on a regular basis over the last decade, year after year, which was actually higher than sales. Last year, we actually declined in absolute value in terms of structural cost.

You remember that structural cost is close to 20% of our sales. It has been effective in all areas of the company. We did it in manufacturing, we did it in supply chain, in procurement, in G&A. And all these areas have delivered a contribution to the increase of structural cost. It has been even probably stronger last year in G&A. Manufacturing takes a little bit of time, so it will be a little bit more back loaded.

We were pleased as well to see that we have achieved that in all geographies. So, it's not only across functions or across categories, but it happens as well across geographies with some areas where we had certainly a stronger delivery such as in the Americas, for example. So, we aim at continuing that effort, not only to keep our structural cost flat, but ideally to see them decreasing while continuing supporting our growth.

What is important as well is the fact that we managed to decrease the structural cost in absolute value while continuing to increase our investment behind growth opportunities. I will mention one, *Nespresso* boutiques, for example, because they are booked in structural costs because the boutiques are part of our fixed distribution cost. We still increased our network by 80 boutiques last year, which is a significant cost. In spite of that, we managed to reduce our structural costs in absolute value. So, I think it's a good achievement and good delivery for last year.

Dessi Temperley, Nestlé S.A. Head of Investor Relations:

Thank you François. Next on the line is James Edwardes Jones from RBC. James please go ahead with your questions.

Question on: Marketing cost

James Edwardes Jones, RBC:

Good afternoon, everyone. On marketing, on the base of what you said about commodity cost and cost savings, I'm guessing your marketing cost fell by something around 90 basis points in the year. Is that right? And, whether it's was right or not, what was the trend in movement in marketing cost between the first and second half of the year?

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

Good afternoon, James. I had indicated already in July last year that our marketing cost went slightly down in the first half of the year. They were down again in the second half although marginally more.

So overall during the year, we marginally declined our marketing cost. You remember that in London, we indicated clearly the fact that we didn't want to ring-fence marketing spend but we wanted to make sure that we would reach efficiencies as well.

Patrice Bula made a presentation where he explained that we were targeting efficiency savings in marketing of about CHF 0.5 billion by 2020. This comes, for example, from reduction of agencies that we work with or consolidation of activities of our market. None of these savings affect our real consumer-facing spending or consumer-facing activities. What happened is that in 2017, we delivered already a significant portion of these savings so – which means that the bulk of the reduction that happened last year, which is far less than what you mentioned, actually happened through these efficiencies and not through effective cuts in marketing spend.

Dessi Temperley, Nestlé S.A. Head of Investor Relations:

The next question comes from Mitch Collett from Goldman Sachs. Mitch good afternoon, please go ahead.

Questions on:	Increasing growth Dairy pricing in Brazil
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Mitch Collett, Goldman Sachs:

Hello. My first one is a fairly general one. You said that you think that growth should be back there in 2018. Your acquisitions obviously don't contribute to 2018. I know you guide that [indiscernible]. But could you just walk us through a couple of steps specifically that can make growth better in 2018?

Then, secondly, you talked about the tough pricing environment in dairy in Brazil. I think your market shares within your dairy-driven categories in Brazil is generally pretty high. Can you perhaps give us any colour on why pricing in that market is so difficult and why you weren't able to maintain some of the input cost benefit?

Mark Schneider:

François, do you want to comment?

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

I didn't hear the first question actually, but I can answer on the second one. On Dairy Brazil, the price of milk in Brazil went down by about 20% in Q4 over Q3. It obviously impacted pricing in the market. We have pricing power obviously, but I mean 20% decline if it is

reflected by many of our competitors, it is difficult to maintain too high a price premium for our products. So, we had to adjust our price level accordingly.

We actually recovered a significant part of it in terms of volume which is good news. We actually gained market share in Dairy. Dairy being our largest category in Brazil. So, whenever you have two dramatic forces I would say in a short period of time, you have to adjust, I think that we did the right thing, and once again by avoiding too dramatic a consequence by gaining market share and recovering on volume. I'm not sure that I understood the first question.

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

Yes. On the first question, Mitch, it was a little hard to hear you. I think we have a poor connection. But what I gathered is your interest within the year 2018 OG development. And one of the things I was trying to point out in my presentation is the levers that we have in our hands to actually over time improve OG, all of them, whether internal or external, suffer from some lead times.

So, internally the biggest one we have is innovation, renovation. So, clearly we've done a lot of steps to cramp that up. But from the moment you push the button to develop a product and then get it out the door and scale it up in the market, it clearly takes a few quarters till that actually becomes visible in OG. And likewise, on acquisitions, you do a deal, you announce it, then you have to wait till you close it. And then after closing, it is one year before it starts to contribute to our consolidated Group OG number. Hence, realistically, even though a lot of things were kicked off in 2017 and landed in 2017, we will now have to wait until the year 2018 and 2019 for those to kick in.

On the four areas I pointed out at the beginning of my presentation, like the markets in the U.S. and in Brazil, and then also in Nestlé Waters and Nestlé Nutrition, I think we have taken fairly meaningful steps to address those specific situations. And hence, I'm optimistic about those when it comes to 2018 and beyond.

Mitch Collett, Goldman Sachs:

So, just to follow-up. It's a combination of the divestments and the benefit you get from that, but it's also because you have a strong innovation pipeline coming. Is that correct?

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

I'm sorry. I still can't hear you right. Could you repeat that again or dial in again?

Mitch Collett, Goldman Sachs:

Sorry hope that's better. If I understood you correctly, the building blocks to better growth in 2018 versus 2017, you have the divestment of Confectionery, but you also sound like you have a strong innovation pipeline behind that. And then there's the businesses that you mentioned within your sights you've already begun to fix, things like *Yinlu* for example.

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

That is correct. But then also don't forget that we also see continued good performance just in some areas we didn't touch upon. I think EMENA, for example, has been showing recently some very good results and we expect that to continue in 2018. So, there's also lot of base issues that are not subject to specific actions that are supposed to give us benefits in 2018.

Also, do keep in mind that 2017 while I usually don't like to talk too much about the calendar, it did have some particular calendar challenges that are not recurring to the same extent in 2018.

Dessi Temperley, Nestlé S.A. Head of Investor Relations:

We move to the next one in the queue, Jon Cox from Kepler. Jon good afternoon, please go ahead with your questions.

Questions on:	Innovation and product development Free cash flow CapEx spend
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Jon Cox, Kepler Cheuvreux:

The line is quite bad. But two questions. One question is on just general innovation and sort of product development, Mark. You've been there for a year now. You've talked about accelerating this. Can you talk a little bit more about what you may be doing on that? And maybe some examples of things that may be coming down the pipe, just to give us some comfort about a pickup in new products coming through. Because obviously, the portfolio reshaping, that's going to take a little bit of time and obviously you're more interested in the overall base portfolio.

And then the second question maybe for Xavier on the cash flow statement. You seemed to be saying that working capital actually was better than it looked like on the last day of the year. And so, are you suggesting that actually free cash flow should improve this year? And as an add-on to that, maybe you can just talk about CapEx spend as well?

Thank you.

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

Thanks, Jon. So, on innovation, I think we've taken a lot of steps and we are taking lot of steps to speed that up. When you look at the role of our strategic business units, so that's the group of units that's headed by Patrice Bula, look at it in two directions. I mean, these are the people that do all the strategy development and some of the innovation planning. They face backwards into our R&D and they face downstream into our Zones and markets when it comes to implementing this.

So, we have taken a lot of effort in the last few years in terms of strengthening the working relationship between the strategic business units and our R&D function to be sure that there's a smooth pipeline of things that are actually strategically relevant to each category that are making a meaningful difference with consumers and to basically speed up the flow of these products to make them available.

And then, downstream, from these strategic business units into the markets, we're spending now a lot of time on reviewing the working relationship between the markets, our Zones, and those strategic business units to be sure that depending on what category you look at, whether it's a global one or a local brand, that we actually shape the decision rights in a way that we can bring these things to the market in the best possible way.

When something is globally done, it needs to be done with a lot of discipline. It needs to be done in a coordinated way. When something is locally done, it needs to be done in a fast and direct way under local responsibility. And, there, you don't want to slow it down with excessive coordination. So, a lot of it is in the fine details, again by category, by brand, that we need to streamline. Again, a lot of work accomplished already. A lot more, I think, especially on the downstream component yet to do.

I would also like to point your attention to the fact that we have a new Chief Technology Officer as of January 1; someone who's been with the company for a long time; very deeply grounded in the Food and Beverage industry; and someone that's very, very much committed to fast cycle development and has given us actually a few, very meaningful fast cycle innovations already. So, I'm very bullish on that aspect and look forward with him to accomplish more.

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

Jon, François speaking. Good afternoon. You're absolutely right as far as the cash flow is concerned. So, our free cash flow declined by CHF 1.6 billion to CHF 8.5 billion last year

which is equivalent to 9.5% of sales. If you look at it, it's mainly coming from the working capital.

We had a very strong contribution from the working capital decrease in 2016 which was exceptionally high, I would say, to start with. It was more than CHF 2 billion.

And we had a slight increase of working capital in 2017. That being said, the working capital balance and the contribution that it has to the cash flow is just the view as a snapshot as at the 31st of December which is one single day of the year. It doesn't reflect the underlying decrease of our working capital. As I indicated earlier in my presentation, our working capital as a percentage of sales on average last year declined by another 60 basis points. So, indeed, I'm not too worried about that and we have identified further opportunities to continue seeing our working capital declining.

Just talking a little bit of our free cash flow going forward. We do expect anyway to have less contribution coming from working capital than what we had in the past because we did quite a lot already, moving from 8.5% of sales five years ago to 2.2% last year. We won't go that far again in the next coming years. But we will have probably a stronger contribution coming from our margin improvement. So, net-net, let's see, and it depends a little bit from one year to the other. But net-net, we might be in the same level as what we had in the past. There is one item that might impact – will impact our cash flow generation especially probably in the next two years, which is the restructuring cost. We have booked quite a lot already in the last two years. But it doesn't mean necessarily that we have spent it entirely yet.

I'm sorry, Jon, I forgot, you had a question about CapEx as well. Our CapEx has been relatively stable. Last year, we were at 4.4% of sales for total consideration of CHF 3.9 billion which is pretty much in line with what we had over the last two to three years.

Dessi Temperley, Nestlé S.A. Head of Investor Relations:

Okay. Next question is from Eileen Khoo from Morgan Stanley. Eileen good afternoon.

Questions on:	Portfolio management Zone EMENA performance
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Eileen Khoo, Morgan Stanley:

Hello. Good afternoon. Good afternoon, Mark and François. Two questions for me, please. So, the first one is on portfolio management. At your Capital Markets Day in London, you indicated that you have perhaps up to 10% of sales to divest. You've done relatively little so

far we have seen the announcement today, obviously, U.S. Confectionery. Could you give some colour on what other businesses you could potentially be looking to sell?

And the second question is on EMENA. Is the second quarter now of growth that's 3%-ish, has this surprised you? What do you think is going particularly well and do you see this as a sustainable run rate? Thanks very much.

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

Yes. Thanks, Eileen. Let me just clarify on the portfolio management. What I did say in London is not that we had 10% of our group consolidated revenue for sale. What it did say is there was going to be portfolio turnover with that volume, but that is buying and selling.

So, clearly, when you look at what we have accomplished so far, even just counting the large transactions, you're in the vicinity of about 2% so that's the sale of U.S. Confectionery and the purchase of *Atrium*. Then, we announced today that we are reviewing strategic options for our *Gerber* Life Insurance business which is a business again with about \$800 million to \$900 million in sales. So, not huge but also not a tiny business, in fact, about 1% of group revenue.

So, one by one, well, we're getting there. I did make it clear. We're not creating an overhang here by creating a huge sell list. I think this is not in the interest of our shareholders. Every time we announce a transaction like this or a review like this. We carefully prepare this with the management team and then we run a very tight process. And as you've seen from the U.S. Confectionery sale, that's leading to good results. That's the way to do it professionally.

If I create a sell list and circulate that tomorrow, the day after, you have hundreds and thousands of people going to work basically with less motivation, less growth in mind, less future in mind, and that's not the way to create value for our company. So, we'll do this one by one, in line with our capabilities. We'll do it professionally and with the best of intention of creating maximum shareholder value out of those portfolio changes.

When it comes to EMENA, I'm very encouraged by what I'm seeing. I think what's really paying off is what you were shown in London by Marco Settembri, and that is a category-led approach here, in particular for Western European countries. Those countries traditionally have been led with a very strong country focus. And I think while it is important that they are close to local market conditions. When it comes to the categories overall, they do benefit from a more coordinated style of management.

So, when you think about one of our leading brands, *Nescafé*, and one of our leading products, *Nescafé Gold*, we're now benefiting from much more coordinated activities and

marketing approaches and advertising campaigns in that product. I think we're seeing the good benefits of that already.

It's shown in two ways. Inside the company, when it comes to cost reductions, it really creates efficiencies in our marketing approach. But then, I think outside, if you reinvest some of those savings, you can really create so much more impact with consumers. You have a more professional approach. And you avoid duplication. Duplication, that case really dilutes your effort and we focus our efforts. So, that category approach is paying off big time and really applaud Marco's leadership in putting that in place and giving a growth vision back to Europe.

Dessi Temperley, Nestlé S.A. Head of Investor Relations:

Thank you Mark. Next one in the line is James Targett from Berenberg. James, good afternoon please go ahead with your questions.

Questions on:	Phasing of margin expansion Disruption to business from cost efficiencies
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James Targett, Berenberg:

Hi. Good afternoon. A couple of questions from me. Firstly, just on margins. Now, with 2017 in the bag I just wondered if you had better visibility on the phasing of the margin expansion to 2020. I think on a linear basis to now, to then it's about 40 to 70 bps per annum. Is that we should expect for 2018, that kind of range? And then secondly, I wonder if you could talk about, I supposed related to that, clearly delivering these cost efficiencies, fair amount of disruptions to your business. Is that a factor you would call out for impacting your growth in 2017? Thank you.

Mark Schneider, Nestlé S.A. Chief Executive Officer

Thanks, James. I think on the margins, we did indicate that we expect an improvement fully in line with the 2020 target. But we deliberately stayed away now from a precise phasing about how much to expect in 2018, 2019 or 2020. So, I think you've seen from our profits in 2017 we're well on our way and there's going to be continued focus on this. But at this point, bearing in mind also how much these margins are being whacked around not just by our own internal efforts but also by where raw materials prices are going, I think it is better to leave ourselves some flexibility here. But again, I can assure you we feel good about our efforts here and feel strong about it.

If I understand your second question correctly, it's about delivery services and to what extent that has an impact on our business.

So, I think it's a market development that is part of a broader picture. And that is what I call the anytime, anywhere environment where it's no longer just the traditional in-home channel or the traditional out-of-home. It's no longer just about your weekly trip to the supermarket. These days, consumers want their products in all sorts of various moments and whoever is there to fill that demand is getting it. So, yes, it's a development that we need to look at closely and rather than starting a delivery service on our own, I think the important thing is to be sure that some of our products are actually embedded in what these delivery services have to offer.

James Targett, Berenberg:

So, if I can just follow up because on my second question, I guess I was more referring to delivery of the cost savings that you're doing, the extent to which delivering these cost savings is impacting your ability to deliver organic growth at the moment?

Mark Schneider, Nestlé S.A. Chief Executive Officer

I'm sorry. I got that wrong. It's again a poor connection. So, let me hand it to François for that. Sorry about that.

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

James, I'll try to answer your question. You remember that in London, we presented our saving programme with a focus essentially on non-consumer-facing activities, which means that we do not expect any of these programmes to materially impact our capacity to grow. And out of the 40 basis points that we delivered last year, the very vast majority is coming from non-consumer-facing activities, from manufacturing to supply chain, procurement, and administration. I'm not saying that it does not have an impact throughout the organization because it does to a certain extent, but we don't think it has any impact on our sales.

And even, as I mentioned earlier, the savings that we achieved in terms of efficiency on our marketing spend, once again, it did not impact our activities vis-à-vis consumers. So, we are relatively comfortable about the non-impact that it has on our organic growth.

Dessi Temperley, Nestlé S.A. Head of Investor Relations:

Okay. Next questions are from Patrik Schwendimann from ZKB. Patrik please go ahead.

Questions on:	Increased growth in Water, PetCare and Coffee
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Guidance for Q1**Patrik Schwendimann, ZKB:**

Good afternoon, Mark, François, and Dessi. The growth categories Water, PetCare and Coffee are below their historic growth rates. What are the main issues to prevent a better growth and how convinced are you to reach in the foreseeable future a much better growth again in these categories?

And second question, quarter one should benefit from later Chinese New Year and the earlier Easter. Would it be a fair assumption to say that the organic sales growth in quarter one should be in the upper half of 2% to 4% guidance?

Thank you.

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

Patrik, let me take the first one. So, as you've seen, our overall organic growth is down from 3.2% to 2.4%. And it would be surprising if these major growth categories that are almost half of the company, if they had been exempt from that. So, yes, we've seen a downward draft everywhere in 2017.

Now, when it comes to the specific reasons why, I think the reasons are vastly different from category to category. So, it's really different strategies and different issues that we have to look at here. I think in Coffee, in particular, we are quite focused on growth in Asia Pacific and making sure that we defend our market shares in some of the key Asia Pacific markets.

When it comes to Water, we had some issues, faced some issues in Nestlé Water North America. In particular, I think we were initially a bit slow to react to the rise in carbonated water. And so, I think we're making good progress here in filling that demand and meeting that consumer demand. In PetCare, likewise, in some of our brands, we were in the middle of our transition to a more natural, higher value offering and kind of overtaken by that trend, but I think we're now nicely catching up.

So, again, I think there's good strategies, good actions in place to address some of the weakness in the growth categories, just as well as in the rest of our portfolio. And that gives me confidence going forward. But there's not one common reason why overall these categories were a little slower than in 2016.

When it comes to your second question in the first quarter, please do understand, we'd like to stay away from quarter-by-quarter guidance. I think we're giving you our annual expectations

and we'd like to update you as we go through the year about the reasons how and why. Do keep in mind, if I remember correctly, the first quarter does have one billing day less. So, again, this count has pluses and minuses, but I wouldn't want to get now into quarterly guidance.

Dessi Temperley, Nestlé S.A. Head of Investor Relations:

Next one on the line is Jeremy Fialko from Redburn. Jeremy good afternoon please go ahead.

Questions on:	Commodity inflation in 2018 Pricing related to commodity costs
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Jeremy David Fialko, Redburn:

Hi. Good afternoon. Jeremy Fialko, Redburn, here. So just some questions from me on commodities and pricing. First of all, could you just clarify the comments you made on commodity inflation in 2018?

And then the next and the extension of that is on pricing, if you don't see as much inflation in the commodity basket in 2018? Then, logically, does that mean that the pricing effects of your organic sales growth would also be lower?

Thanks.

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

Jeremy, good afternoon. So, in 2017 – so we had a significant additional cost to bear which is CHF 900 million. In the trend that we can see in terms of commodity pricing for 2018 is a very small decrease but we are just one-and-a-half months into the year. So, it's still early to draw any conclusion even if we have some ways to lock some positions for hedging and so forth. But it's still very early to draw conclusion. Let's say, we don't expect to have such a headwind in 2018 as what we had in 2017. There is some correlation obviously between commodity pricing and sales price. But it's not always a direct correlation. As you could see, for example, last year, we had quite a significant increase in commodities but we did not necessarily reflect everything in terms of pricing because we need to make sure whenever there are commodity movement that they are sustainable as well, because we don't want to start moving prices up and then we have to move them down again the next months and so forth. So, it's really early to draw any conclusion. You could see that pricing has been relatively stable in 2017 over 2016 at 0.8%.

Dessi Temperley, Nestlé S.A. Head of Investor Relations:

Thank you François. The next questions are from Martin Deboo from Jefferies. Martin, good afternoon please go ahead.

Questions on:	Margins Organizational changes in U.S.
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Martin Deboo, Jefferies:

Good afternoon, everybody. It's Martin Deboo at Jefferies. Two questions, please. One on margins probably for François, and one on U.S.A. sort of organizationally for Mark.

François, on the margins, I've noted what you said to James Edward Jones. But I'd just like to go over it one more if I may on your margin bridge. I mean, you have 40 basis point of structural cost savings. Am I to assume that – that therefore the marketing reduction is 70 basis points or it sounds if it's less than that from what you said about constant currencies? And also just a supplementary, was M&A particularly the *Froneri* exit materially accretive to margins in 2017? That's the margin question.

And, Mark, just thinking about U.S., I mean you moved the head office this year and given the issues in the U.S., do you think that had any sort of materially disruptive effects on your commercial effectiveness in the U.S.? Was that a factor in the weaker SG? But phrasing the question more positively, do you think the relocation of the head office looking forward in a more natural location plus the infusion of the acquisitions like *Atrium* eventually, do you think – do you foresee a sort of culture and organizational change in the U.S. that would improve your go to market effectiveness there? Those are the two questions. Thanks.

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

Martin, let me start with the second one, and then François will get to the margin. So, on the U.S. generally, yes, I'm more optimistic going forward but maybe for slightly different reasons. One is clearly, last year, while we would have liked to see more organic growth, I think most other fast-moving consumer goods companies and certainly Food and Beverage companies were in the same space as well in that market. And I think what we've seen is that some of the good news from the macro environment did not really feed through to consumer spending and was slow to feed through to consumer spending. And I think that is slowly starting to change. So, I think the macro on the consumer behaviour is somewhat helping us here. Consumer sentiment, I think, is improving.

Specifically now when it comes to the move from West Coast to East Coast, that was executed perfectly. I really applaud the team for doing a perfect job on that. And, yes, I mean, if you do that, there is going to be a bit of disruption and a bit of distraction. And on the margin, I cannot rule out that that took some effort away. But under the circumstances, you know what is humanly possible, I think they've done it really, really well. And do keep in mind, this is more than just a geographic headquarters move. It was also a site consolidation project that actually focused our core U.S. sites and gives us more concentrated, more collocated groups now going forward. So I really applaud that move. It's more than just changing cities. It really will increase the operational efficiencies going forward. We will have the effects of some of the acquisitions kick in later. We will have now the effect of U.S. Confectionery gone by the time it closes.

And do keep in mind when it comes to the second half of the year, when you do announce the sale of a business like this, as much as you can put good diligence in place to avoid that it goes south during such a process, of course, there's competition closing in, your own people are focused on the transaction and hence there was a bit of a price to pay here when it comes to organic growth in U.S. Confectionery in the second half. I think that's unavoidable when you go through a deal like this and it's basically part of the switching cost. And one more reminder, that portfolio management should be done with great deliberation and great care.

So when you put all of these together and then some of the good things we have going for 2018 and 2019, I feel good about where the U.S. is going.

François-Xavier Roger Nestlé SA, Chief Financial Officer:

Martin, on our question on margin, so once again the marketing spend decrease is relatively limited and it is essentially coming from efficiencies that we delivered in line with what we presented in London. And we did quite a lot already in the first year. There are other savings that you don't necessarily see, which are not in structural cost because they are variable, but they recurring. For example, in procurement, when I talk of CHF 900 million of commodity increase last year, it is before any saving that we have been able to deliver on procurements, through consolidation of procurement activities above market, and these savings are quite significant.

We did not enjoy any real benefit from *Froneri* in 2017 because we reaped off already most of the benefit in 2016 because we started to deconsolidate *Froneri* as at the end of September, I think. And we are actually traditionally making losses in the last quarter of the year. So, there is no real impact of the *Froneri* deconsolidation in 2017.

Dessi Temperley, Nestlé S.A. Head of Investor Relations:

Ok and the last two questions are from Alex Smith from Barclays. Alex please go ahead.

Questions on:	Market shares across portfolio De-layering management
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Alex Smith, Barclays:

Yes. Hi. Good afternoon. A question, I guess, on your market shares across your portfolio. I think in H1 you said you saw a slight loss of share across the portfolio. How are we looking for the second half? Are we in similar territory?

And then a question on management de-layering. Mark, I think you spoke at the Investor Seminar. You spoke a bit about the scope to de-layer management to really speed up the business, drive execution faster. I'm just wondering if you've been able to make any progress on that front as of yet. Thanks.

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

I think on market shares, Alex, the picture is more or less unchanged from the first half. So, no major changes there.

On the de-layering, I mean, the single biggest example I can point you to are the changes that we announced in the fourth quarter regarding Nestlé Nutrition. These are not minute changes. This is a CHF 10 billion part of our company that we're transforming now from a globally managed business to one that is managed under the Zones. And that's a huge de-layering job, and we're seeing some benefits already, as I mentioned earlier, when it comes to faster communication. But also, as we pointed out at the time, in addition to the sheer speed and flexibility and closeness to the markets, there is a cost benefit associated with it.

So, when we talked about this in London, we made it clear we're not going to be doing across the board kind of stuff. These are going to be targeted, very focused actions, and hence Nutrition was one of them. And the other ones may not be as large, they may not be subject to public announcements, but we actually look at it unit by unit, layer by layer, and try to find the best set up.

And taking great diligence in that matters and that is important. Because otherwise, when it comes to these across the board organizational changes, I just feel there's too much collateral damage. So if you don't want to harm the company's growth prospects, if you don't want to create collateral damage, you have to do this carefully and you have to do it unit by unit, and that's what we're doing.

End of Q&A session**Slide: Title slide****Dessi Temperley, Nestlé S.A. Head of Investor Relations:**

Okay. And with that, we come to the end of our conference call today. Thank you, Mark. Thank you, François. Thank you very much to everybody on the line who attended our conference call. If we couldn't answer all your questions, so if you need more details, you know where to reach the Investor Relations team by phone or by e-mail. And we look forward to speaking to you again at our three months sales conference call in April. Thank you very much and goodbye.

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

Thank you, everyone, and look forward to staying in touch.

End of Transcript