

NESTLÉ S.A.

**2017 NESTLÉ INVESTORS SEMINAR LONDON
Q & A SESSION**

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Speakers:

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

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Question on; Organizational structure of Nestlé**Michael Steib, Artisan Partners:**

My question is regarding the organizational structure of the company. Do you feel that having three zones and in addition these globally managed business units is still the right structure. Would it not potentially enable more cost savings going forward if you were to have the Zone management also manage Water, Nutrition etc. in their respective geographies?

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

It's a fair question...

Ok let me just repeat the question. So it was about whether the organisational structure of the company, with those three zones and then in addition to that several globally managed businesses, whether that organisation is appropriate going forward.

It's a fair question. When you go back to my presentation this morning, one of the underlying messages was that we will have some changes to do when it comes to advancing speed and simplicity and agility. What we don't need to do is a top to bottom re-organisation.

That should give you comfort because when a large company, with our scale starts to do that, well you'll see each other two years later because you are talking about a whole lot of lost time before you get back to doing productive work. One of the things I convinced myself of early is that within the present organisational structure we have the latitude, we have the flexibility to do what we need to do.

I specifically think that we have the interplay between strongly-led Zones, and I think we have three very capable, very strong Zone leaders, and then this very strong SBU leadership and with Patrice we have a real, natural product tsar when it comes to that. That's the powerhouse, that's the centre of the company. Then where we have special circumstances, where we have a special situation, where a globally managed business is warranted because it has a totally different business model like for example *Nespresso* or because it benefits from some degree of global co-ordination that really creates tangible value. Yes, I think in that case it is worthwhile to deviate from that fundamental Zone/SBU architecture and then break it out into a different unit.

I think there are some clear rules why and how that is. Overall I think that both these structural designs have their merit.

Question on; Consumer Health Care
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Eddy Hargreaves, Investec:

You have committed yourself to Consumer Health Care as another leg of your business. That obviously could cover quite a broad definition of different sub-sectors within it. I haven't got it in front of me but I think there was reference to 118 billion OTC categories for example, which will include I think, from memory, VMS, analgesics, all sorts of things which you may or may not be interested in. I just wonder if you could scope it out for us as to what parts of Consumer Health Care are of particular interest and which, if any, are of no interest to you going forward.

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

First and foremost it's important for me to underline that this is not something new. As I said this morning this is basically a fifteen, twenty year effort that I am building on and that has seen, especially when it comes to Nestlé Health Science, some really good successes.

Rather than focussing on these two labels Health Science and Skin Health we have deliberately tried to give ourselves a bit of flexibility by trying to find a label, find a placeholder that really covers both of these. Hence the Consumer OTC Health Care label that gives us some flexibility, when it comes to opportunities going forward, what we are going to be pursuing.

What I can promise you is that this should not be a *carte blanche* for reckless diversification in that space because you are quite right, it is a very large category but it is also one that is quite diversified. So you will see us stay reasonably close to the themes that we have played already but again I wanted to have some flexibility and wiggle room because not every opportunity in this space comes as a plug and play, pure play and hence I wanted to have some flexibility here to explore. I think anything that is close enough to our core skill set around Nutrition, around Skin, anything that gives us a stronger presence in the drugstore and pharmacy channel per se is worthwhile looking at. Then we need to do the final work on how does it exactly fit, how does it add value, and can we handle it?

Also do keep in mind what I said in the morning. When you have a scale up area like this that is new, do it prudently, don't get ahead of yourself. Make sure that the lessons, if you have to pay for lessons, are affordable.

Questions on; ROIC Savings from Nestlé Continuous Excellence

James Edwardes Jones, RBC:

Two quick questions if I may. First the growth categories that you have talked about. With the very big exception of Coffee they are all low return categories, they are amongst your lowest return categories, well they are your lowest return categories. So if you are stepping up investment in categories that are already very low return how can you be so confident that the group ROIC is going to continue to increase? Well not to continue to increase, to increase.

Secondly are you able to quantify the Nestlé Continuous Excellence savings. You have given us a lot of detail on the restructuring programme, the savings you expect, there but I would like to an idea of the overall retention rate.

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

Why don't you answer the second one and I will answer the first.

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

On NCE we have said in the past that we were generating about CHF 1.5 billion of savings which once again, as we have said in the past, have been re-invested for growth for about 85% of it. So you can consider that the amount of savings we will generate in the future is probably along those lines as well in terms of amounts for the future.

Once again, as I said earlier, we expect to re-invest most of it for growth and I gave some examples such as product reformulation, price competitiveness. In the past we did quite a lot of marketing investments as well, it might be a little bit different. You heard what Patrice said about achieving efficiencies as well in marketing so it might be a little bit different.

I indicated as well that with NCE that it might be a way to handle commodity fluctuations that we have on a regular basis. So you can expect the amount to be pretty similar to what we had in the past.

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

I would dispute this notion that only Coffee is the high return activity. It may have something to do with the fact that here is a business that by and large we have built up internally over eighty years, hence there was little acquisition and little goodwill that was built up. Whereas in the others we did have, over time, some meaningful acquisitions. I think that should not cloud your judgement going forward, because even though if you may have paid a large amount of goodwill to get into this space and to get your ticket punched, going forward then to grow this now, with OPEX and CAPEX and do more of the good things that we are doing, you know it may be actually a very high return activity.

That's why I think, looking at the margin, looking at the cash generation is more important than looking at some of the past behaviours that led to those goodwill numbers.

Questions on;	Outsourcing as a cost saving measure Complexity of Joint Ventures
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Alain Oberhuber, MainFirst:

Thank you, I have a question that has two points. First regarding cost savings. Some of your competitors, they outsource quite a lot of their activities i.e. distribution or also the production side. We didn't hear a lot about outsourcing today, wouldn't that be another cost saving path you could go?

The other thing is regarding all these joint ventures you have. Isn't it increasing your complexity in order to reduce it?

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

First on the manufacturing side, I mentioned that we have 418 plants but we do have a quite a lot of co-packers as well so this is something that we use extensively as well, which is not part of our programme, so we do not hesitate to do it. Obviously when we do it, it means less CAPEX but usually you have a lower margin because the co-manufacturer needs to make his own margin, but we do use it extensively as well.

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

Where we use it is more with flexibility in mind or to acquire a certain skill that we may not have a way right available at that moment. But look over time, especially in a competitive setting you want to be sure to control your core activities. So when it comes to asset light models where you do not actually fulfil some of your core activities I am always a little suspicious of that.

So I think that mixed model that François is describing is a good one.

On Joint Ventures, look it depends on what both sides bring to the table and how that partnership goes. Joint Ventures can be great, or they can be time consuming. So I think being pragmatic on this is the best approach.

Questions on;	Net debt to EBITDA target R&D and Marketing investment
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Mitch Collett, Goldman Sachs:

Two questions if I may. Firstly I notice in the slides from today that you haven't given the 1.5 times net debt to EBITDA target you gave in the review in the summer. Is that still a valid target.

Secondly can you talk about R&D and Marketing investment? Are those two lines of the P&L ring fenced in your new margin target?

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

Just on the first one, net debt to EBITDA the ratio of around 1.5 that we indicated that we gave when we made the announcement for the share buyback is not a target. It is a consequence of the share buyback announcement. So read it as we are ready to move from the current 0.7 times to around 1.5 times but once again it is not a target it is a consequence.

On the cost sides we do not exclude any area from the cost saving programme which means that Marketing and R&D are part of it. You heard Patrice talking about some initiatives that he is taking in order to improve the efficiency of our Marketing spend. In R&D, you might have heard in the media that we have taken a certain number of initiatives as well that are

involving some of our R&D facilities. That being said as far as R&D and Marketing are concerned we will take special care not to hit in anyway our capacity to grow today or tomorrow which is the reason why we want to focus essentially on structural costs, which are non-consumer facing activities. But there are no sacred cows, there are no savings too small, and there are no areas that are immune to this programme.

Questions on;	Margin Expansion beyond 2020 Marketing spend
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Warren Ackerman, Société Générale:

Two questions, the first one is for Mark. You have been quite clear with us that once you get to the 17.5 – 18.5 % margin by 2020 don't expect any further margin expansion beyond 2020. I get the point that you don't buy into the US style outsize margin model but why do you think that the 17.5 – 18.5% should represent the ceiling, why shouldn't we expect that number, beyond 2020 to gradually increase to maybe to 20% or a bit higher.

Then secondly the question around Marketing spend for François-Xavier. I think in the past you have been spending Marketing at roughly twice the level of organic growth and that's been maybe a reason why your RIG has been so good. Can you tell us why you think your Marketing spend has peaked and if marketing does come down is there any risk around the RIG momentum which at the moment is very good?

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

Thanks for giving me the chance to clarify. The point that I was try to bring across is that first of all I wanted to make it very clear, just like anyone in the room, I don't know what the specific circumstances will be in the year 2020, so we will decide then. But I wanted to caution you that given that we are now taking a step change here, from 17 to 20, that it is unlikely that we will be taking another step change over and above that from there to some period in the future. Rather what I would like to do is follow what I outlined as the new model and that is something that is in-line with that virtuous cycle that you heard about. That again goes back to that consistent value creation in-line with organic growth and on-going profit improvements, but this time measured in underlying operating profit margin. So that is my preference but again what the world is like in 2020, we will see then. So you are absolutely right can I pin-point 17.5 to 18.5 from then on for ever – no I can't. So that's why we have to stay flexible but I wanted to manage expectations and one of my experiences from the past

is when you feel about something be upfront about it. So I would rather tell you now than tell you in 2020 and hence this is where I am coming from.

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

Just on the Marketing side it is true that we have increased our marketing spend over the last couple of years to a rate that was higher than sales although it has started to slow down already a couple of years back. There were mainly two reasons for it. The first one was that we were increasing our digital capabilities so today about a third of what we spend goes into digital which is one thing. So we don't need to build that capability because we have it to-day. That doesn't mean that the share of digital will not increase but let's say that we had to that which was a kind of one-off investment over the last couple of years.

The second thing is that, as you heard in Patrice's presentation, we are looking at executing some efficiency, within Marketing as well, and you might have seen that for example in H1 our Marketing spend in absolute value did not grow any more, it actually declined I think by about 2%. I think we mentioned that it was down by two percentage points in Swiss Francs.

Question on;	Pricing pressure
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Vincent Baron, Oddo:

Just a question about the price environment especially in the US market because we are expecting to have some organic growth over all. So why don't you think that the price pressure may increase in this market and what is your vision regarding Europe and may be China also for the price?

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

Do you mean product pricing?

Vincent Baron, Oddo:

Product pricing yes, because in the US you have a big pressure from the retailers from the E-commerce. Do you think it is the end or do you think we can have some acceleration to this price pressure?

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

Look, I think as a general observation with the rise of digital and this easy comparability of prices I think on the margin I think pressure is more likely to increase than decrease. But I think as Patrice and some of the other presenters pointed out, one thing is to look at a very general, everything else being equal, terms and the other one is to look at must-have products and strong brands and attributes that people want have and that people are willing to pay for.

Hence we are not selling averages, we are selling products that people want and so our job over time is to really position our brands and products in a way that we can eke out a premium for that because people want them.

So this is the notion that even in a day and age of perfect digital comparability, strong brands and high quality products behind them will prosper.

Question on;	Capital Allocation Value in holding L'Oréal stock
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Nadim Rizk, Fiera Capital Corporation:

So two questions. Just to go back on Capital allocation, there was a lot of talk on return on capital does it bother you that your return on invested capital is fairly mediocre at 11% for a large company, and that is not operating ROIC because obviously your operating ROIC is much higher, so that is mostly due to acquisitions that have been not very accretive from an ROI perspective.

My second question is that I understand that L'Oréal has not been a bad investment but what is the value in having a stake in L'Oréal when it is a public company that anybody can buy on the market.

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

Look on the first one. It is one of those situations where, going forward, we can look at prudent capital allocation, we can look at prudent M & A, we can look at prudent execution when it comes to capturing the value we pay for. For whatever is done, it is done. This was the significance of the change of accounting rules earlier, in the past decade, under US GAP and at some point IS, that unless you have a real goodwill impairment you are stuck with this for a long period of time. So we can't walk away from that. That's the way it is. So if you are

in a situation where you may not reach all the targets that you were hoping for, but it is also not a downright train wreck then you are stuck with this and you are stuck with all-in ROIC number that then may not be meeting your expectations. That's why I think, featuring both numbers is important because you wouldn't want, as you compare categories, as you compare products, you wouldn't want to penalise a business just because of M & A activity that may have happened five, ten or fifteen years ago. That's why I was saying, going forward, it's important if you are earning good margins, good cash in this business. You know build it in spite of what may have happened in the past. So this is the approach that I am taking with it.

Going forward what I want to assure you about is that we are very prudent when it comes to capital allocation and that's the only thing we can do.

On L'Oréal I think I was trying to make it clear in the morning. Over and above what I said I have nothing to add.

Question on;	Acquisition guidelines Medical Nutrition
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Jon Cox, Kepler Cheuvreux:

Maybe as a bit of a follow on from that question, previously you have said you wouldn't do an acquisition unless you were able to get the cost to capital back within five years, i.e. ROIC above WAC within five years. Is that still the case when you are thinking about M & A.? As an add-on what do you think your WAC is incidentally at the moment?

Then may be one on for Mark. We haven't talked about Medical Nutrition, potentially acquisitions or expansions into Medical Nutrition. This is obviously a business you know very well. Is it just competition concerns that stop you talking about may be doing deals in that area or is it an area where you think actually it's not really the focus for you?

François-Xavier Roger:

The ROIC is obviously one of the dimensions we look at when we make an acquisition. We indicated a few years back indeed that we were targeting directionally to have our Return on Invested Capital above our WAC within five to seven years, which I think is a reasonable assumption, which is certainly one of the KPI's that we look at, it is not the only one, we look

at other KPI's like internally rate of return, we look at the contribution in terms of growth and so forth. But that is one of the indicators we are using.

You were asking where do we see our WAC today, so it is around 7%.

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

In terms of Medical Nutrition, look it's a highly attractive category, no question, but it's also a fairly concentrated category so when it comes to larger targets that is going to be hard. When it comes to bolt-on acquisitions, when it comes to technologies to bolster our footprint in this space the answer is yes, any day.

Question on;	Time scale to re-energise growth in core categories Portfolio changes Target structures
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Céline Panutti, JP Morgan Securities:

On the mid-single digit growth by 2020 you have given us some ideas on where is the best opportunity and provided a chart of the building blocks of what drives that. The biggest block was the growth of your core categories. So the question is how long do you think it will take to re-energise that, when we have had already today a deceleration of the growth, rather a disappointment? So how long will it take for the uptake to happen? That is my first question.

Second can you just clarify the ten percent of disposal or business that could be disposed of? Whether that is disposal and M & A if you could just clarify that.

Finally how the target structures through the organisation are being changed to empower as well as bring accountability for delivery?

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

On the first one, I don't have a precise breaking point for you where all of these measures are paying off but I do have a large amount of confidence that with this mid-term target by the year 2020 that there will be a tangible improvement of this. So that was the whole purpose with the time frame we have chosen.

It's important to me, and I am glad that you are bringing it up, when it comes to portfolio changes we are talking about buying and selling. So this is not only selling and I just wanted to be clear on that.

When it comes to some of the organisational changes the good news is that we don't have to go through some sort of wholesale re-organisation but, yes, I do think we have some initiatives underway that just strength decision rights at the fringes of the organisation, because that is line with the theme that you heard over and over again today and that is the importance of all things local in Food and Beverage. We are doing that with prudence we have never gone to the extreme of over centralising in the past and hence we don't have to do a massive correction now. There is also of course a difference in the sort of approach you are taking for a global brand as opposed to a local brand because with a global brand if someone locally totally behaves out-of-line there is a chance that globally that brand gets damaged whereas with a local brand the downside is much more limited. So we will be very cautious about the changes we are doing there. No big deal but I think, going forward, this whole notion of being locally responsive is going to be important.

Question on; Embedding acquisitions to leverage value

Martin Deboo, Jefferies:

I would just like to ask the question, I think Céline asked it earlier. I think it is important we ask it again in this forum. Your strategy is moving forward towards in part buying businesses like Blue Bottle and Sweet Earth but the question is how do you ensure that you leverage the growth of those businesses by getting them embedded in the organisation? I realise that is not something you want to do immediately but over time to leverage them you have got to get them embedded. Your track record there with *Jenny Craig* and *Power Bar* in the past has not been great, so what are you going to change going forward to ensure that acquisitions unlock value for you. The question is an organisational one as much as anything.

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

Look in fairness you know, singling out two deals that have been often described as some of those problem areas, let's talk about the good ones. Let's talk about *Totole* that Wan Ling talked about this morning. Let's talk about *Merrick* where I think for a few years now we have been significantly scaling up this business. Both have been acquired on this same notion that you leave a founder or management team a lot of latitude, you create a set of incentives around them to be sure that they behave in the right way and that there is alignment towards

the goals you want to accomplish. Then you create some touch points between the acquired company and Nestlé but make it more of an 'on-demand' model. We are there to help if they need help but we don't smother them. I think that model has been working quite well in past. It is not a new invention of this year. As you said there has also been some areas where we didn't meet our objectives. That's the way business goes and now are honing and practicing that model again with the likes of Sweet Earth and Blue Bottle. So it is not new to us, we have done this before. It is an easy model to come to us given Nestlé's decentralised past and culture. We are learning with each and every deal but it is not like we are complete novices at it. This has been going on for decades.

Question on;	Power of SBU heads
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Alan Erskine, Credit Suisse:

Just to go back to the Zones and the Globally managed businesses. I am conscious that within the businesses that are more local there are important global platforms *KitKat*, *Dolce Gusto*, parts of *Maggi*, where there is kind of a more global platform. My question is do you think that if it is the SBU heads who are the guardians of those global platforms that they have enough power within the organisation. Well that's my question really do you think that the SBU heads are powerful enough to make sure that, yes a lot of these products are local they need that local touch, but within those Zone managed businesses or regionally managed businesses there are those global platforms as well.

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

Look when you have that interplay between an SBU and a Zone it is one of these artificially constructed intentional productive conflicts, that's the way it is designed to be. That's behind any metric structure. Depending on the people involved and the depending on the category in some cases that's producing better results and in other cases worse. But by and large over by now, what is it, almost thirty years, the experience with it has been very, very positive and it makes sure that over and above any local needs there is some sort of guard rail if you will between what we would want to go to and what we wouldn't want to go to. It goes way beyond just Brand attributes and visual appearance, it is also about the content of the product. It's about some of the products attributes like NF that we talked about. So I think when it comes to the underlying content of what we want to be in and where we want to be going that SBU guidance is going to be really important. Then you want that balanced, you want that healthy constructive discussion that comes from the territory know-how, that comes

from the Zones, that market knowledge, that is what you want. Just like in any organisation there are wonderful circumstances where you get a better result and yes sometimes you pay the price that, you know, decisions may get delayed or you may not be as responsive as someone who can make decisions immediately on the ground. But by and large that pattern has served us well and I am very interested in upholding it.

Question on;	ROIC target
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Jean-Philippe Bertschy, Vontobel:

I would like to come back to the Return on Invested Capital question and we have seen this morning that capital spending, working capital, factory closures and disposals play a big part of the equation in your strategy. So I wonder why you stick to a margin target instead of giving a Return on Invested Capital target which in my view is a better measurement of value creation.

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

That's an excellent question and I think in addition to comparability and in addition to showing you some visible progress, don't forget that we talked just a minute ago about portfolio change at roughly 10%. With that it is very hard to estimate exactly what amount of goodwill is leaving and what amount of goodwill is coming.

So I felt that to use something that is closer to the actual operations in this case, like in the underlying operating trading profit margin, is easier for you to follow, easier to understand. That points the right direction and if we exercise prudence when it comes to deploying capital then our ROIC should also move in the right direction. So again rather than pinpointing something, directionally it is consistent.

Question on;	Gross Margin
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Jeremy Fialko, Redburn:

So I have got a question on the contribution of gross margins to your operating margin improvement. Now in the bucket of cost savings you outlined procurement as CHF 5-6 hundred million so logically would that mean that gross margin expansion would be a quarter to a third of the operating margin expansion?

Following on from that you obviously talked about you expect premiumisation and mix to be important contributors to your growth. Is the implication that the mix and premiumisation benefits to your gross margin are essentially offset by the ongoing pricing and competitive pressures you expect in the business over the next few of years? Or is that an overly conservative view point on how things will evolve.

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

Our gross margin has increased significantly over the last couple of years. I think that over the last four years it has increased by 4.5 percentage points, which is the consequence of many factors. You mentioned many of them, it can be commodities which went up on average over the last couple of years but it was only a third of the improvement. It is impacted by sales price, it is impacted by mix, and it is impacted by premiumisation obviously, so you said it all.

That being said we have seen that our gross margin has started to decline moderately in the first part of 2017 which is largely impacted by the commodity headwind that we had this year which has not been fully reflected in sales price for the time being. But as you say part of the savings programme will flow into the gross margin but once again it is influenced by many different factors from pricing to commodity to premiumisation, mix and so forth. What is interesting to see is that our gross margin is at more than 50% is reasonably high when you compare it against our peers, which really illustrates very well our pricing power, which illustrates very well our capacity to premiumise, to manage our mix and to manage our portfolio overall.

Questions on;	Changes to incentives Innovation Fund
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Richard Taylor, Morgan Stanley:

Hello, I think you mentioned in your presentation that you have changed some of the incentives in order to align with cost savings plans. Could you give us a little bit more colour on that? Also how you balance incentives on both efficiency and growth, it is quite tricky to do. That is my first question.

Then may I come back to my parked question on the venture capital fund and major successes that have been achieved if there and perhaps if there aren't any why there aren't any.

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

Maybe I can take the first one and then François can answer the second one. So the one change we have effective this year already is that we emphasised what we call trading operating profit 1, which is underlying trading operating profit more strongly than what we call internally trading operating profit 2 which is then the all-in. So this in line with what we communicated this morning that this is the number that we want to manage towards in the future. We felt that it was important to make that change.

By still keeping trading operating profit 2 or the all-in number, we also intending to show you that this is not free for all, so people cannot gorge on restructuring expenses going forward. Hence François' comment which I very much subscribe to, one of the reasons for transparency in this space is important is that you don't want to get back to the sort of situation that some of you criticised years ago and that there is a trading operating profit margin before bad news, that is not helpful. So I feel that both of these need to be reflected in an incentive system and both of them need to be reflected in our public disclosure. So full transparency on that.

The comment I made about the incentive systems in general is, in a day and age when we need to manage some of these businesses more selectively for growth, the four big businesses I spoke about this morning. Then on some of the others it is going to more a combination of growth and value. Then yes, we need to have flexibility inside our systems to either target to one or the other. So one of the things early on I did with HR is to convince myself that, without changing the system over all, that bosses basically have the latitude inside the organisation to actually do that. Because if you can't incentivize your people with a proper mix then yes it is pretty hard to get them to move in this direction. But the good news is that the systems have that flexibility inside the company and hence it was not necessary to go for a complete re-engineering.

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

So on the innovation fund, as I mentioned earlier, we have created this innovation fund I think about ten years ago. We have invested in I think about 41 different projects over the last ten years. The fund is still operating. Some of this investment, all of them have been minority investment – or the vast majority have been minority investment. Some of them have been taken over within Nestlé and especially by Nestlé Health Science. Some of the

companies have been IPO'd, some of them have been sold. Most of them are still within the fund. We do not communicate on it because it is not really material, relative to the size of Nestlé.

Question on; Water in the US
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Mark Schneider, Chief Executive Officer, Nestlé S.A.:

Stefan since we parked some questions from this morning, I remember that there was another one on Water and the US. I just wanted to confirm that yes, we are highly interested in expanding our footprint in Sparkling in the US because that is clearly a growing area. The other one where, ideally in the long run, we would like to improve our footprint is in premium Still.

We have lots of Still offerings, we have some that are borderline towards premium but having a stronger footprint in that space is very desirable to us.

Question on; Nutrition in China

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

Whilst we are at parked questions the last one was on Nutrition in China. May be you could elaborate on that one.

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

What was that question again?

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

The question was our outlook on Nutrition in China and the current regulation.

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

I think that is very consistent with what we communicated in prior quarters and that is that with the two child policy now taking effect and also the stronger awareness on quality that I think the news is good for us. I think this plays to our strengths and hence we are reasonably optimistic when it comes to 2018 – 2019.

There was also, until recently, a lack of clarity about some of the E-commerce traded products because it was unclear to what extent that is something that is tolerated and supported by the Chinese government. They recently clarified that and hence this whole notion of supporting products that's traded on E-commerce, which includes a lot of imported products, is also very important to us so we shall adjust accordingly and take advantage of that situation.

Question on;	Strategic benefit in remaining in US Frozen
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Stuart Reeve, BlackRock:

Can I just come back to US Frozen, you know if you look at your portfolio you often talk about owning things where there is clear Health or Wellness benefits, or something that you communicate. I understand the science around Frozen, but the consumer often doesn't seem to believe it. I think that many of us in the audience are struggling to see what you see as the strategic benefit of being in that segment so perhaps you could talk to that a bit.

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

Look I think that this is one of those where you do not change perception from one year to another. I think that *Lean Cuisine* example where we have been in a decline for five years from 2010 to 2015, it has been accelerating because of consumer perception.

Then as a result of some of the re-positioning, also change of recipes and change of content we managed to turn around that brand. These things do take a while to take hold and I think over all if we multiply our healthy and convenient offerings in that space then I have confidence that over time consumers will learn and understand and that consumer perception will follow.

Let's also be realistic. We have a large number of Frozen offerings that are not exactly NHW and hence we are realistic about that. But to me, to vilify the entire category doesn't make sense because I think with our very efficient Frozen supply chain we have a source of competitive advantage. We have the skills and the know-how to bring to you very healthy, very delicious Frozen products, so let's play on this strength. You know that is one of those that we would really like to advance going forward and hence it was important to me, not only to point us to Sweet Earth as much as I like that company and I like those products, but also to those internal developments that Laurent also referenced where we are playing in to the

same direction and that is to offer delicious, healthy Frozen offerings that over time will get consumer confidence.

Question on;	Adjusting the 2020 target to include divestures “Harvest” portfolio
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[Participant]:

Yes I have two questions one is regarding your target of 2020. The 17.5 -18.5 % is that based on the asset base of 2016 though were you to divest in the meantime would you then adjust accordingly your margin target.

Then my second question – I am quite intrigued by the “Harvest” portfolio of 6 billion. What is the margin on that portfolio currently? Thank you.

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

So I could take the first one. So clearly if we trade between now and 2020 then that’s part of the 2020 number. If we are trying to re-engineer what the margin would have been with assets of 2016 we get into all sorts of hopeless, non-verifiable maths for you. So basically it is the 2020 margin based on what we own and operate in 2020 that we are targeting towards.

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

On the Harvest category we do not disclose the margin, as you could see the margin improvement was quite significant. But it was not from a very low base either so it is a real improvement partly linked to the fact that we invested less in Marketing spend in that period, in 2016 but it is linked to a certain number of initiatives as well such as the one that we described today. For example this project that Laurent described for Ice Cream in the US, this type of initiative that we are taking are contributing to the margin improvement as well. But once again it was not that small to start with.

Question on;	Roast and Ground Coffee and Out-of-Home Confectionery Category
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Pablo Zuanic, SIG:

Can you clarify the comment you made in the morning about entering more actively Roast and Ground coffee and Out-of-Home. The question comes from the angle that how far can you really go with instant coffee? I understand that the Commonwealth countries and emerging markets drink that, but you know Starbucks is developing in China, the Chinese consumer is developing a Roast and Ground taste. You see what is happening in that market, you know JAB holdings has come out of no-where, consolidating coffee chains as well as brands in Roast and Ground. I look at the US business and the brands that are growing are all coffee chain brands. So if you are thinking long-term in Coffee can you afford to just be limited to instant coffee? I understand that you have *Nespresso* and *Dulce Gusto*. So if you can comment about that, about how far do you go in Roast and Ground and Out-of-home, and you have to go far and compete with JAB in terms of acquisitions and things.

The second one. I understand why the interest in Water because although it is low margin it goes with the growth potential, although most of your brands on the lower margin side, plain water. But why not Confectionery? The reason why I ask that is to me Confectionery is like Water in that it is fragmented, there is the Global label, local somewhat, there are a lot of family owned companies, you could be more aggressive there and consolidate in that category. If it is because you don't believe in Health and Wellness for Chocolate and Confectionery and that the category doesn't have growth, why not just exit the category altogether?

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

Let me comment first on the Roast and Ground coffee and the Out-of-Home situation. We have learned over the years that there are Out-of-Home segments that simply insist on Roast and Ground. It may not always be taste or product attribute driven. A lot of it is experience driven. You just want to see how the coffee is being prepared, you want to smell it, and you want to experience this. Having said that, you know from an experience point of view Roast and Ground may have an advantage over Soluble but there is also a big downside when it comes to the simple timing of filling an order. Think about a gas station that has a coffee machine or think about some office environments and clearly Soluble does have strong advantages.

So we have recognised this a few years ago and we have started to develop Out-of-Home machines that actually can play both sides of the street. Over and above having access to the Coffee now having the machines, having the equipment that goes into office settings or goes into gastronomy settings that can satisfy both requirements is really important.

Roast and Ground? Not every segment of Roast and Ground is for us. There is a low price segment that clearly is not of interest to us, where I do not believe we could add enough value. But when it comes to premium and super premium I believe that there is always a sufficient number of opportunities and I think there is enough margin and enough differentiation to be had in this space to make it attractive to us. The world is certainly not running out of targets when it comes to that – so very interested in this but I think for the essential tools that we need to compete in the Nestlé Professional Out-of-Home environment, we have been at this for a while and I think that now, with our new machine generation, we are quite well equipped to take advantage of both sides – Roast and Ground and Soluble.

So I wouldn't comment too much here on the moves of our competitor. As you know not all our offers are only Coffee related. We are by and large interested in the Coffee and succeeding in that and very focussed on that product at the centre of what we offer.

Regarding Confectionery. Look I have no hesitation about the category per se. So this was what I was trying to drive home this morning when I was talking about 'Food is not fuel alone'. When it comes to healthy enjoyment, when it comes to healthy indulgence I am all in favour of that. Confectionery can fulfil that purpose. But I am also recognising the reality that when I look at our recent track record and when I look at our current growth numbers, this is not a product category that I could rightfully elevate to that level. Having said that I am one of the believers that you have to earn the right to be one of the stars, every day, and that also means that if Confectionery, over time, improves its growth and earnings profile that yes this can grow into an important category. I totally agree with what Marco said and that is, especially when it comes to Europe and the multitude of promising, deeply connected local brands, this is a very different situation to what we found in the US. In the US we reacted very decisively by exploring options. I think in Europe we are well advised to try and develop this category and make more out of it. That applies also, not talking exclusively to EMENA here, this also applies to activities in Latin America and in Zone AOA.

Question on;	M&A at Nestlé
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James Edwardes Jones, RBC:

Mark you transformed Fresenius basically through M & A as a non-Fresenius follower at least that's the way it seemed. You made it relatively clear today that's not going to happen at Nestlé. Is that just a function of Nestlé's size or is there anything more to it than that.

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

At the risk of being a little bit impolite - you have no idea how much more change there was beyond M & A.

James Edwardes Jones, RBC:

No I accept that.

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

In all modesty aside from the M & A, look at the organic growth numbers, look at margin development. This was a lean and mean fighting machine. And I am proud of it.

James Edwardes Jones, RBC:

But you did do quite a lot of M & A.

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

On top of it – yes. And I am proud of that also.

James Edwardes Jones, RBC:

It is a serious question though. Is there anything about Nestlé compared to Fresenius that makes you think it is not susceptible to M & A in the same way?

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

I would work by analogy here. Again different circumstance. This is the past, I am happy and proud about it. This is the future, I am excited about it.

Questions on;	Restructuring costs
	Private Label

Patrick Schwendimann, ZKB:

You will increase restructuring costs for the next couple of years. What would be a fair assumption for the long term, so meaning after 2020? Would it be again let's say 50 basis points? What's your assumption here?

Second question regarding large customers, like Wal-Mart, they are pushing private label. How do you cope with this situation? I guess you will never produce private label products.

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

Let me focus on the second question and then François can comment on the first one. Look private label is a way of life and if anything the US was coming to that later than some of the European markets. To me it's all about this new anytime, anywhere environment, where yes, just like we are free to use multiple channels to reach the consumer, the retailer is also free to develop private label. This is a fact of life we have to deal with, we have to differentiate our brands in ways that are meaningful and that consumers want them and go the extra mile for getting them and so to me the actions of one specific retailer in that direction don't change that picture.

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

On our restructuring cost you can see that we are planning to spend 2.5 billion over a five year period which means about ½ billion a year. So obviously we are at a time of relatively intense restructuring, which means that post 2020 it should be lower than that amount so I think that is a reasonable assumption

Patrick Schwendimann, ZKB:

So lower than 50 basis points, okay.

Question on;	Reacting to trends
	Distribution methods and costs in the future

[Participant]:

I think it was Patrice's presentation which indicated that in a couple of places you were late to mega trends, be it natural or organics. Can you explain why this was? Was it the size and

scale of the Nestlé business or potentially back to the complexity of the organisational structure and what confidence can you give us that you won't be late to the next mega trend.

My second question is really about the new growth channels talked about be it drugstore, or Out-of-Home, E-commerce, Home delivery. Can you give an overview of what the potential change in delivery cost or cost to serve might be for those models as many of them don't actually make any money?

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

On the first question it is always hard to summarise these things because depending on the product, depending on the category it may always be a different story. By and large, if I try to summarise it I don't think that we seriously missed anything in the sense that it didn't hit our antenna. I think we were sometimes slower than we wanted to be in terms of meeting things and really rolling things out and being there when other people were starting to develop that market. That is something that we have to work on, will we hit everything on time going forward? Probably not there is too much going on. Are we committed to doing better – yes we are.

In terms of the E-commerce and anything that is related to direct distribution in this, yes you are absolutely right. This is one of those where you see shining success stories and also some pretty bad examples. I think we have to be selective about this. Some of the people asked me in the break why could it be that we profitably operate a Water truck in the US but why don't we have a Pet food truck. Yes when you look at the routing that would be possible. The sheer density that you can serve with a Water truck as opposed to a Pet Food customer the economics clearly prove that one of them can work right and the other one would have a problem. So I think you need to stay flexible and rather than do a one-size-fits-all, experiment, learn from it try to take the lessons and apply it. What we are not going to be doing is hopeless dances. When you really see that there is no way to make money then yes at some point we take things off the table and do something else. This whole notion of more rapid learning and trying and doing and adjusting to a new reality. But we are not going to do hopeless dances.

Question on;	Delaying at Nestlé to improve growth
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Alex Smith, Barclays:

Maybe a related question on the issue of the complexity of the organisational structure. You mentioned delayering a couple of times and speeding Nestlé up as consequence of it. This sounds pretty interesting but I guess we haven't had much detail on this. I appreciate that it is quite a sensitive area. I was just wondering if you could share your thoughts on the prospects of delayering at Nestlé and speeding the business up and how meaningful that could be in terms of improving growth.

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

There are several things at work. One clearly is decision rights and so that clearly is nothing to do with delayering. Then by brand, by category and also by Zone and Market you are trying to understand what gets decided where, in the interest of speed and clarity.

The other one, yes, we are reviewing in various groups and departments spans of control, as I said there is no wholesale reorganisation for the entire company we would not be well served with this, it is not necessary. But yes, department by department, group by group this whole notion of spans of control and being sure that you are competitive and that your SG&A overall is in-line with best in class. I think that is on-going activity. That's our duty to do that and to make sure that we are efficient on that front.

Question on; Innovation across categories - Caffeinated water

Jhoanna Alba-Harkort, Deka Investments:

I have a question on innovation and it has been a common thread in the presentations how that is a key to supporting future growth. I had this opportunity to try this water, caffeinated water. Specifically on a product like this how did that come into being? One question is caffeinated water will that cannibalise some of Coffee demand? Was the idea from the Water business unit and did the Coffee business unit have a say in that? Have you analysed cannibalisation rates. So what happens when this process progresses. Where are the decision making points?

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

Let me put on for a second my salesman hat. This is not just caffeinated water. Pull out your Google and you will see that caffeinated water has been around for twenty years in the US. So caffeinated water alone doesn't do it. You will also see that as hard as you try, if you just

try to add a little bit of caffeine to water what you can't quite avoid is that tinge of a little after taste because caffeine is not completely taste free. So this is not doing it.

This is caffeinated water, on top of that you get those polyphenols and I think you have a nice, pleasant taste that isn't overly sweet. It is really the complete set of attributes that make this product very attractive to us.

This was developed in a very short time frame because looking at the market, looking at some other samples we felt that this is one that builds on a lot of inherent strengths that we have about caffeine processing and polyphenols. The reason I featured this, over and above the fact that water is one of our core categories, is simply that here we brought something to prove a concept in a very short time frame. So it is a good example of this type of rapid innovation that will be ready for market entry in a short period of time.

Question on; Complexity in decision making
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Alan Erskine, Credit Suisse

Just to return to the subject of complexity. You said Mark that you felt your antenna had picked up some of these mega trends but you had been somewhat slow to react and roll out. I think it would just be helpful to understand what were the internal impediments to a quicker reaction and what can be done to speed that up. I hear what you are saying that you don't need wholesale change, you just need better understanding of who owns the decision but where are we in that process? Other than just banging heads together as saying do the right thing what is changing?

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

I think we are talking about not one silver bullet but we are talking about a set of minute changes. Also about a different attitude and really something that over time will take hold. I can't point you to a specific moment in time where we are saying as of now it is all going to be different. This is a gradual process. This is how change happens in large organisations and let me say, very clearly, this started way before me. I think this whole realisation, this is why I pointed out this will to win this morning. You know this realisation that world around us is changing, that we are losing share to this quote unquote other category. What do they have that really puts them ahead of us? This whole analysis, how do we need to change and

what do we need to do, that started years ago and I am having now the benefit of actually seeing some of those changes come to fruition. So in a sense this is a gradual process. This is not something that started at a given point in time. We are on our way. We are serious about this and will make it happen but if you are trying to distil it to something like here exactly is the problem it got fixed in July 2016 and now it is showing benefits as of Fall 2017, no the world doesn't work that simply.

END OF TRANSCRIPT