NESTLÉ S.A.

2018 FULL YEAR RESULTS CONFERENCE CALL TRANSCRIPT

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Speakers:

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François-Xavier Roger, Chief Financial Officer, Nestlé S.A.
Luca Borlini, Head of Investor Relations, Nestlé S.A.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Slide: Title slide

Good afternoon to everyone, good morning to our listeners from the U.S. Welcome to the Nestlé Full Year 2018 Investor Call. I'm Luca Borlini, Head of the Nestlé Investor Relations. With me today is our Chief Executive Officer, Mark Schneider and our Chief Financial Officer, François Roger.

Slide: Disclaimer

As usual, first, we will start with the presentation by our CEO Mark Schneider then he will then hand over to our CFO François Roger for the financial review. At the end we will open up the lines for Q&A.

I draw your attention to the disclaimer in our notes on the full year 2017 restatements. Now, I hand over to Mark.

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

Slide: Title slide

Thank you Luca, and a warm welcome to our investor call participants today. We appreciate your interest and look forward to updating you on some of the significant progress we've been making at Nestlé in 2018.

Slide: Key messages

Looking at the key messages here from this past year, I think it's very valid and very obvious that we've made continued strong progress with our accelerated value creation model. As you know we outlined the broad brush elements of this model to you in our June 2017 press release.

There were some initial steps in 2017 but then we saw a very strong underlying progress in 2018 towards making some of these objectives happen. Most notably good progress on organic growth, 3%, back up from 2.4% in 2017. And that was carried in particular by good growth momentum in the U.S. and in China, our two largest country markets and also very strong success with our Infant Nutrition business. As you know these things did not happen by themselves. In particular, in Infant Nutrition we did have a major reorganization at the end of 2017, migrating that business from a globally-managed entity to one that's handled by the three geographic Zones. That was a stellar success. We handled this transition in a short period of time and then saw continued strong market share gains in 2018 and also profitability improvement in all of our areas.

So very happy with this move, it's clearly paying off, it shows that our Zones when it comes to executing and running these businesses they're certainly on top of what they're doing.

In the U.S. and in China we had new leadership teams, the one in the U.S. taking charge in early 2018 and the one in China has been already in place since late 2016. So clearly, all of these changes have been paying off very nicely.

In terms of the underlying trading operating profit margin, we're exactly in line with the outlines we gave you in 2017 and our 2020 margin target calling for an underlying trading operating profit margin in the range of 17.5% to 18.5%, so good continued progress in this direction. Good development, good progress on portfolio development, we'll talk about that later.

Very nice underlying earnings per share growth, we'll talk about that later too. Also a very disciplined returned of cash to shareholders through the stock buybacks and our dividend. As you saw from our announcements this morning, this will continue in 2019.

Slide: Strong 2018 financial results

François will cover the financials in more detail but in a pretty high level way, let me say everything on a group level that had to go up was pointing up, some of it very strongly like underlying earnings per share, everything that had to come down like for example working capital levels came down and so, very happy with how the financial metrics were developing overall.

There is one notable exception that I would like to mention head-on when it comes to the business segments or categories and that's our Waters business, but here again in fairness in light of where energy prices, PET prices, and in particular distribution costs in the U.S. were heading, there was no way that we could have coped this in a transportation intensive business like Waters. Under the circumstances that business has done well. I think it improved its efficiency a lot and also put in place the necessary price increases so that we are positioned for better development in 2019.

In particular when it comes to this slide, I think it kind of validates and supports our whole notion that we are pursuing a balanced development between organic growth on the one hand and then a positive development of the underlying trading operating profit margin on the other hand, now if these two things come together I think you have the elements of a sustainable successful profit growth cycle. You've seen that with the development of underlying EPS, even though we did have some tailwinds coming for example from U.S. tax reform and coming from our share buyback programme. Even if you strip out these one-off elements, you're seeing that our underlying EPS essentially doubled from 2017 levels.

If you throw in on top of that capital efficiency and I think free cash flow is a good proxy for that. I think you are ending up with a very nice development when it comes to return on invested capital. Here again, the increase is a little stronger than just on an underlying basis because of our significant write-off on Skin Health last year. But even if you strip that one out, I think you'd see meaningful progress from the year 2017 to 2018.

So all in all financially, very positive development and, again, it's important that it's broad based dependable, there's no obvious real down with that one exception of the water business, but here again, I think, when it comes to input costs we have good reasons why that is and we're putting things in place to address the situation.

Slide: Delivering on our commitments

When it comes to our commitments, I won't go into all of these items in a large amount of detail, what I'd like to dwell on really is this whole notion of sharpening our strategic focus because when I look back at 2018, in particular some of the portfolio choices that we've made and announcements we've made, I think our overall strategic picture like where we want to head and why, has become so much clearer and what we mean in particular by our Food and Beverage and Nutrition and Health products focus, that has become so much clearer compared to the beginning of 2018. So the notion that we're exploring options for Nestlé Skin Health makes it clear that Nestlé Health Science is a key foray for us into consumer health products. But then we're not about to enlarge our business in personal care and hence we are exploring these options for Nestlé Skin Health.

Within Food and Beverage, I think we've also made some very clear choices that show you where we're headed and our latest announcement from this morning that we're exploring strategic options for *Herta* is another case in point. So overall that whole notion that we discussed in earlier conference calls of strategy being a movie and not a snapshot. I think that really has borne out. That movie, that plot has become so much clearer now compared to where we were a year ago.

At the bottom of the slide, I also talk about creating shared value. I'll talk about this again at the end of the presentation. We will make this now a more regular feature of our investor calls because I think it is an element that's deeply embedded in our company and sets us apart. We've been very much focused on creating shared value and sustainability and social agenda long before it became fashionable, I think this is an item that really does make Nestlé stand out and hence it is worthwhile to show you some of the specific things we're doing and we noticed that more and more investors and large investors are getting more interested in the purpose of the company and what it really does for society at large.

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

The next slide with our path to mid-single digit organic growth by 2020 is a repeat when it comes to the outlines of the slide, from last year and the year before, and we'll keep that basic format for the time being just to show you what we're doing in each of the three buckets of fixing our base business, portfolio management in high growth categories to get to our 2020 OG target of mid-single digits. The next few slides will elaborate this in a bit more detail.

Slide: Fixing base business

So let's start with fixing the base business and I featured three examples here, Nestlé Skin Health, *Gerber* and *Yinlu*. There's many other inside the company, but I think those are ones that we have been discussing quite often in past calls and hence it makes sense to update you on them.

Nestlé Skin Health may surprise you because we also have that business under strategic review, but it's important for me to point out the significant impressive progress that we have made over the past two, two-and-half years in turning around this business. So what we have now is a leader in its space, that has a competitive cost structure, has very clearly articulated strategies in each of these three sub-segments which is Consumer, Aesthetics & Corrective and Prescription and has made very strong progress in each of these, has a strong management team in each of these three segments and overall and is entering this whole period now of exploring strategic options from a position of strength. So we're seeing very, very strong interest in this process and literally people lining up around the clock to be part of this process and that would not have been possible without this very strong progress we've seen from the Nestlé Skin Health leadership team over the past two years.

On *Gerber*, we've made good progress when it comes to new packaging options and also, more importantly, the expansion of our organic range. As you know from past calls, this was a trend that we kind of reacted slowly to, but I think now we're really caught up quite a bit. In order to communicate that whole new approach, we've also decided on a new colour scheme, as you see here from the slide and a new campaign, new packaging choices, the name of the campaign is Anything for Baby, if you're interested look it up on the web. It'll make you smile at the very least.

Yinlu, this was also a business that we discussed quite a lot in the past. As you know we've seen fairly negative growth rates in 2015 and 2016. We've stabilized the situation in 2017 and now in 2018 we've arrived at a situation where we've seen more growth coming through, the peanut milk category is still under attack. But I think we've found a good growth venue with our ready-to-drink coffee products which are very much in demand in China and requires similar manufacturing process. Hence, we're making good use of the infrastructure that the *Yinlu* business offers to us.

Slide: Developing our portfolio

The next two slides are about portfolio development and the first one is a summary of what we've done so far. Let me tell you from a numbers perspective that deal making activity so that's the sum of buying and selling for last year was close to CHF 14 billion. So a pretty busy agenda here and do keep in mind that most of the time these were not just simple buying and selling portfolio choices but each and every one of these transactions required a fairly diligent integration job in the case of acquisitions or fairly diligent carve-out activity in the case of divestitures. All of this was done with the utmost diligence and professionalism, so applaud the teams that made this happen.

We've completed inside 2018 the U.S. Confectionery one, you know that happened already at the beginning of the year and then at very last the end of December we completed the *Gerber Life* Insurance business. Under review right now, we have the Nestlé Skin Health business and we announced today the review for the *Herta* charcuterie business. Charcuterie standing for cold cuts and meat-based products.

Then on the investment and acquisition front, some of the larger deals of course was *Starbucks* and *Atrium* but then we also acquired or invested the majority stakes in a whole range of small-to-mid range companies such as *Blue Bottle, Terrafertil, Tails.com, Sweet Earth* and *Chameleon*. So overall a pretty busy agenda, but one that makes our strategy stand out so much more clearly and positions us better in segments and categories that are strong in demand with today's consumer and pointing to sustained growth.

Slide: Exploring strategic option for Herta charcuterie

Let me spend a minute on the announcement of this morning that we're exploring strategic options for the *Herta* charcuterie business. So, the total size of that business is about CHF 680 million based on 2018 numbers. The main activities of that business are in France where the company has a fairly iconic standing in the market for meat-based products and other countries served are Germany, Belgium, Luxembourg, the UK and Ireland. I think what makes this review a very good and strong option is the fact that we've seen a very significant recovery in the business, a very significant turnaround underway the last two years that bolster operating profitability and growth and really positioned the company quite well, most notably in its key market in France, but we've also seen significant progress in some of the other markets, for example in Germany.

So here again, just like with Nestlé Skin Health this whole notion of entering these strategic reviews from a position of strength is very important to us, that really allows us to pick the best options for this business going forward and it also leads usually, as you've seen from past activity, to a very good outcome for us.

Slide: Supporting growth through innovation

The next item I would like to focus on is supporting our growth through innovation. I have listed three examples here that really had pretty significant numbers impact in 2018. In the interest of time, I will not go into much detail on these but I would just like to confirm to you that we have completely retooled our innovation process and the setup of our R&D activities in 2018. So I really congratulate the new research and development leadership team on creating a much clearer, flatter, more direct, more responsive structure that allowed us to reduce cycle times of new developments from concept to launch, to support all of that with a solid process so that is not only one-off things but a process here that can be applied throughout the company and then creating interesting exciting projects that really captivate everyone's interest inside the company and out and make it clear that innovation is a key driver of future success in the marketplace and organic growth.

So fantastic job. Again, we cannot talk about long-term sustained organic growth success without a significant long-term sustained success in innovation. I feel so much better now about the innovation pipeline that has been created and the one that's building up right now and I think that positions us well for the future.

Our R&D budget will stay an industry leading budget. We're not looking to that budget for savings. I confirmed that on earlier calls, but what we want is bang for the buck when it comes to that budget and we're about to get it.

Slide: 2019 guidance

When it comes to the 2019 guidance, it's important to see that in conjunction with the 2020 targets that we had issued as part of our London Investor Day in September 2017. So we would like to confirm just like 2018 was a very good step towards these targets, we will see continued progress in 2019 towards the 2020 targets. So we expect organic sales growth above the 3% we achieved last year and we also expect to see underlying trading operating margin above the 17% that we accomplished in 2018 and then with a good meaningful progress on both of these metrics towards the 2020 target.

Restructuring costs as of now are expected at around CHF 700 million and we will update you as we go throughout the year on what the latest thinking on restructuring costs will be.

Then when it comes to the underlying earnings per share and constant currency and capital efficiency, we expect further improvement.

Slide: Business as a force for good

Before handing it off to François, I would like to talk a little bit about our social and sustainability agenda. The credo here, business as a force for good, is one that resonates very strongly inside our company and also personally with me.

As I mentioned, this is something that goes back right to the origin of this business. It is not a recent fad. It is not something that we recently picked up. This is our approach to business and I think it gives us depth, it gives us staying power when it comes to the close relationship that we enjoy with so many agricultural communities around the world that are important commodity suppliers to us and business partners and it also connects us very well with communities where we do business, either from a manufacturing or selling point of view.

When it comes to specific focus areas for 2019, I would like to point you to the ramp up of our Nestlé for Healthier Kids campaign. That campaign got started in May 2018. It's a product campaign that's global, it's a several year effort. The purpose is to significantly upgrade the Nutritional quality of our products, in particular the ones that are accessible to children. As you know, this is an age when lifelong Nutritional habits are being formed. We also cooperate with institutions like schools and other places around the world to be sure that these Nutritional improvements reach the children and become available to children and then we also work very hard to improve the information available on what constitutes good Nutrition so that people can make informed choices.

The centre of the slide, waste-free future, we've taken a lot of effort last year in ramping up our leadership here. It started with our commitment last April to make our packaging completely recyclable or reusable by the year 2025. We've followed up with more commitments, more detailed commitments and also the foundation of an Institute of Packaging Science because as we pursue and progress in this area, we want to be sure that we're not just dependent on progress that's being made with our suppliers in the packaging space, but rather we want to lead this effort and want to see where the opportunities are.

We've issued a very detailed press release in early January that outlined some of our activities for this year and I would invite you to take a close look at that. To me the most important thing is that it's not only about long range commitments, but we are taking specific steps that could implement it right now to make credible progress in this area. And I think you also see us take responsibility and take a close involvement in outreach and volunteering activities at all levels in the company to be sure we're part of the solution and help to alleviate this problem.

Last but not least, inside the company, we are initiating a diversity and inclusion drive, in particular we'd would like to get up the gender balance results from the 30% female senior executive participation that we have achieved now which is clearly not enough. So we want to make good progress in this area. We will issue a gender balance acceleration plan in early March. We will have a separate press release on these activities and we hope to see significant progress in the years between 2019 and 2022.

So again, in addition to these three, there will be lots of other sustainability, creating shared value, societal related activities going on inside the company. This is a very complex organization as you know and we're doing lots of activities in lots of places. But I thought that these three projects in particular merit particular attention.

With that let me hand it over to François. And I look forward to answering your questions later.

François-Xavier Roger Nestlé SA, Chief Financial Officer:

Slide: Title slide

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

Slide: Full-year sales growth

Mark has shared the financial headlines with you already so I will provide you with some of the details behind those numbers, starting with the sales growth with the different building blocks of our top line growth. Reported sales increased by 2.1% to CHF 91.4 billion. The most significant contributor to the growth was our RIG which accelerated to 2.5% and remains at the high end of the Food and Beverage industry.

Our RIG was supported by disciplined execution, faster innovation and successful new products launches.

Pricing was 0.5%, it has improved over the course of 2018 going from 0.3% in the first half to 0.9% in the second half. This was mainly coming from emerging markets and North America.

Our organic growth increased to 3% in line with our expectation and in line with the guidance that we gave at the beginning of the year. Net acquisition increased sales by 0.7%, this was largely related to the acquisition of the *Starbucks* license and *Atrium Innovations* which more than offset the divestments of U.S. Confectionery.

Foreign exchange reduced sales by 1.6%, mainly due to the depreciation of several emerging market currencies against the Swiss franc.

Slide: Improved RIG in the Americas

This slide illustrates the development of our sales by geography, it includes both our Zones as well as our globally and regionally managed businesses. Our growth was broad-based both in terms of organic growth and RIG. Year-on-year, all geographies showed an improvement in RIG. The most notable increase came from North America. Pricing was limited, but as I said earlier, it improved significantly in the second half to 0.9%.

Pricing dynamics were different by geography, partly depending on their category mix and their related commodities.

In EMENA, we saw slightly negative pricing as the portfolio is more weighted towards Coffee, where commodity prices have fallen. On the other hand, for AMS on Waters, higher pricing was facilitated by increased input cost.

Slide: Strong RIG in developed and emerging markets

Now looking at the growth dynamics between developed and emerging markets. Developed markets, especially North America, saw an improvement in their OG. The increase comes mainly from the RIG and is largely driven by innovation in Coffee, in Nutrition, and in PetCare.

Slide: Zone AMS

Let's now look at the result of our five operating segments starting with Zone AMS where we are pleased to see the organic growth momentum building up. Sales were CHF 31 billion, organic growth was 2% supported by higher RIG of 1.3%. North America returned to positive growth in 2018 as we continued to place emphasis on faster innovation and portfolio management.

Organic growth showed material improvement in both the United States and Canada year-on-year. We finished 2018 with both positive pricing and RIG in North America. By category, *Purina* PetCare maintained its solid performance particularly with *Pro Plan, Fancy Feast* and *Tidy Cats* as well as a strong growth in the e-commerce channel.

Creamers did well, helped by premium and natural offerings in the *Coffee-Mate* range. We integrated the licensed *Starbucks* business with strong demands for its consumer and out of home coffee products. Nestlé Professional maintained its high growth, Infant Nutrition returned to positive growth in the fourth quarter reflecting our investments and initiatives to turnaround this business. Frozen food was flat.

In Latin America, we had positive organic growth with broad-based contribution from most categories, momentum improved sequentially throughout the year with mid-single digit growth in the fourth quarter helped by increased pricing. In Brazil, the trading environment remained challenging, but the market returned to positive organic growth in the second half of the year. It was driven by stronger pricing and an acceleration of growth across most categories especially in Confectionery and Infant Nutrition.

Mexico maintained consistent mid-single digit organic growth with a strong contribution from *Nescafé* and *NAN* infant formula. *Purina* PetCare delivered another year of double-digit growth reaching sales of more than a CHF 1 billion in 2018. The Zone's underlying trading operating profit margin improved by 50 basis points as ongoing restructuring projects reduced structural cost. Efficiency savings more than offset cost increases from commodity and freight inflation.

Slide: Zone EMENA

Next is Zone EMENA whose sales were CHF 18.9 billion. Organic growth was 1.9%. RIG was resilient at 2.6% despite unfavourable comparables in Q4 2017.

Across all three sub geographies RIG was positive. Western Europe at slightly negative organic growth, positive RIG was offset by negative pricing as the trading environment remained deflationary. Both Central and Eastern Europe as well as Middle East and North Africa maintained mid-single digit organic growth supported by good RIG.

By category, *Purina* PetCare, Infant Nutrition and Nestlé Professionals were the highlights. Premium products now account for 22% of the Zones sales and delivered organic growth of around 10%. The strong sales momentum came from products such as *Felix* and the *Gourmet* cat food as well as the *NAN* infant formula with human milk oligosaccharides. *Nescafé* posted positive growth. Confectionery was positive helped by innovation as well as a continued strong performance from *KitKat* with nearly 6% organic growth.

The implementation of category-led management units in the Zones created operational efficiencies and structural savings which supported the improvement of underlying trading operating profit margin by 80 basis points. The increase was also helped by product mix, lower commodity cost and premiumization. Zone EMENA provided the highest contribution to the group's margin improvement both in terms of basis points and in absolute amount.

Slide: Zone AOA

Moving now to Zone AOA with sales of CHF 21.3 billion, organic growth was broadly stable versus nine months finishing at 4.3% for the year, RIG was 3.6%. The Zone continued to deliver good broad-based growth with all geographies and all categories contributing.

Looking in more details by market and region. China's growth improved significantly versus 2017 driven by e-commerce and innovations in Infant Nutrition, in Coffee and in Culinary. Southeast Asia was led by double-digit organic growth in both Vietnam and Indonesia with *Milo* and *Bear Brand*.

In the South Asian region, growth was supported by *Maggi, Nescafé* and *KitKat*. Sub-Saharan Africa posted mid-single digit growth, despite a lower pricing contribution. Both *Maggi* and *Milo* continued to perform well.

In the developed markets, organic growth remained positive as robust RIG more than offset negative pricing. In Australia, we successfully launched *Nescafé Gold* and *KitKat Gold.*

AOA's underlying trading operating profit margin improved by 60 basis points supported by volume leverage, pricing and operational efficiencies.

Slide: Nestlé Waters

Moving on to our globally managed businesses and starting with Nestlé Waters, organic growth for the year was 2.1% driven entirely by pricing as RIG finished at minus 0.6%.

Total sales were CHF 7.9 billion. In North America, organic growth was positive and price driven, we took pricing in June to reflect significant inflation in both packaging and distribution cost. There were strong contributions to growth from the sparkling spring waters range under our regional brands such as *Poland Spring* and *Zephyr Hills*. Our direct to consumer business *ReadyRefresh* had good organic growth.

Europe returned to mid-single digit growth in the second half of the year, most notably in the UK and France, these results were supported by innovations such as *Perrier & Juice* and *Levissima +*.

Emerging markets improved across most markets, driven entirely by pricing. The international premium sparkling brands *S.Pellegrino* and *Perrier* continued to contribute positively to growth.

The underlying trading operating profit margin for the water business decreased by 200 basis points, profitability was impacted by higher PET and distribution costs. These were partly offset by operational efficiencies; structural cost reductions and price increases taken in June.

Slide: Other Businesses

Finally, we finish with the other businesses which includes *Nespresso*, Nestlé Health Science, Nestlé Skin Health and *Gerber Life Insurance*. We have since confirmed the sale of *Gerber Life Insurance* and we are exploring strategic options for the Skin Health business.

Total sales were CHF 12.3 billion. Strong organic growth of 5.7% was largely coming from RIG of 5.4%.

Nespresso maintained strong mid-single digit organic growth with positive organic growth in all three Zones. Both North America and emerging markets sustained strong momentum with double-digit organic growth. *Nespresso*'s global performance was supported by the continued progress of the Vertuo system rollout which is now available in 14 different markets as well as by innovation such as the Master Origins range. We also continued to expand our distribution on global footprint throughout the year reaching now 792 boutiques.

Nestlé Health Sciences sustained mid-single digit growth supported by medical nutrition and consumer care products. Our recent acquisition, *Atrium Innovations* posted double-digit growth also helped by the launch of the new organic herbal dietary supplements.

Finally, Nestlé Skin Health had high-single digit growth.

The underlying trading operating profit margin of other businesses increased by 60 basis points, this was mainly driven by an improvement in Nestlé Skin Health and *Nespresso*.

Slide: Strong portfolio with broad-based organic growth

Looking now at our growth by product category where all segments sustained positive organic growth showing the strengths and the consistency of our portfolio. Powdered and Liquid beverages maintained solid growth, pricing decelerated versus last year largely as a consequence of lower green coffee prices. We had strong contribution from ready-to-drink coffee that grew double-digit as well as from *Nespresso* and *Nescafé, Nescafé* more specifically in emerging markets.

Nutrition and Health Science grew well driven by solid organic growth on RIG in all three sub categories. Performance was helped by a stronger momentum in Infant Nutrition globally finishing with 3.8% organic growth for the year, significantly higher compared to the prior year. Innovations such as *A2* protein infant formula, as well as organic and natural ranges did well. Our HMO formula range reached sales of CHF 600 million across 40 countries within its first year of launch. This illustrates our ability to innovate and to implement innovations rapidly.

Milk products and Ice cream improved progressively over the course of the year and delivered both positive RIG and pricing. Ambient Dairy improved in the second half driven by Brazil. Innovation contributed to growth with natural and plant-based offerings such as *Häagen-Dazs* non-dairy and *Coffee-Mate Natural bliss*.

PetCare continued to accelerate versus the half helped by premiumization in our natural portfolio including *Merrick* and finally by e-commerce channels. Growth in our cat food and litter platforms was particularly strong. *Felix* is now a billionaire brand following several years of double digit growth.

In Prepared dishes and Cooking aids, growth came mainly from the Ambient segment while the Frozen and Chilled category was more challenged. Our chilled vegetarian platform showed solid growth.

Confectionery growth was RIG driven excluding the U.S. Confectionery which was sold in April 2018, organic growth was at 3% for the year. *KitKat* delivered nearly 9% organic growth supported by strong execution and innovations such as *KitKat Ruby* in Europe and *KitKat Gold* in Australia. Waters we already discussed.

Slide: Most product categories increasing underlying trading operating profit margin

Moving now to the profit evolution by product categories. Overall margin expansion in all categories was supported by operational efficiencies and successful execution of the ongoing restructuring initiatives.

The net effect of commodity costs was broadly neutral at group level, favourable input costs helped margin improvement in certain categories such as Coffee and Cocoa, while Water was affected by higher packaging and higher transportation cost.

Our leading categories; Powdered and Liquid beverages which is mainly Coffee as well as Nutrition and Health Science and PetCare continued to deliver the highest levels of margin in our portfolio and they even saw their profitability increasing further in 2018.

Slide: Gross margin improvement helped by pricing, operational savings and mix

Looking at our gross margin, we saw an improvement of 50 basis points since last year finishing at 49.6%. Our gross margin has been restated as of this year with a reclassification of certain cost items from marketing and administration to cost of goods sold.

The 50 basis point expansion was helped by pricing, by a reduction of fixed industrial cost as well by favourable mix, all items being evidence of our strong portfolio. Overall, the impact of commodity costs was broadly neutral.

We increased our gross margin in five out of the last six years and which illustrates obviously our capacity to price and to manage positively on mix and premiumize.

Slide: Underlying TOP +50 bps mainly by cost reductions

Moving to the underlying trading operating profit or UTOP, that increased by 5.1% to CHF 15.5 billion. Our UTOP margin increased by 50 basis points to 17% which puts us on track to meet our 2020 margin target. The improvement mainly comes from operational efficiencies and successful execution of ongoing restructuring initiatives which reduced our structural cost.

All of these savings more than offset the headwind of higher distribution expenses. We also had some benefits coming from pricing, improved portfolio mix and marketing efficiencies.

Commodities, as discussed earlier, was broadly neutral on a net basis across the different geographies and operating segments.

Consumer facing marketing spend increased by 1.3% in 2018 on a constant currency basis.

We achieved significant efficiencies in our marketing investment this year as we consolidated the number of media and promotional agencies and increased our own in-house production capabilities.

Slide: Underlying EPS +13.9%*

Moving onto the P&L items from underlying trading operating profit down to EPS. Net other trading items increased by 20 basis points. This was mainly due to higher impairments and other restructuring related expenses. As a result our trading operating profit was 15.1% on a reported basis representing an increase of 30 basis points versus 2017.

The group's tax rate decreased by 280 basis points to 26.5%. The underlying tax rate declined by 320 basis points to 23.8% mainly as a result of the U.S. tax reform. Net profit increased by 310 basis points to 11.1%. This increase was mainly due to several large one-off items in 2017.

In 2018 we also benefited from higher income related to the disposal of businesses mainly U.S. Confectionery.

Underlying earnings per share increased by 13.9% in constant currency and by 13.1% on a reported basis to CHF 4.02. The share buyback program contributed 2 percentage points to the underlying earnings per share increase, net of finance cost.

Slide: Further progress on working capital

Moving on to working capital, this chart shows our working capital levels based on the five quarter rolling average. In 2018 we managed a further 20 basis point improvement in our working capital as a percentage of sales. The significant reduction in working capital has been achieved over the past few years has helped us to free up significant resources equating to several billion Swiss francs.

Slide: Strong free cash flow: CHF 10.8 bn

Free cash flow grew by nearly 15% to CHF 10.8 billion. The increase was mainly the result of higher operating profit, a further reduction of working capital and disciplined capital expenditure.

This high level of free cash flow allows us to accelerate the execution of the share buyback programme. We now intend to complete the current CHF 20 billion share buyback programme six months ahead of schedule by the end of 2019.

Slide: Free cash flow increase coming from improved EBITDA* and working capital

Here we show the drivers behind our free cash flow improvement, the working capital reduction and the higher EBITDA were the two main contributors.

Slide: Net debt increased following share buyback and M&A

Net debt increased by CHF 8.9 billion in 2018, closing at CHF 30.3 billion on December 31, 2018. There was a net cash outflow of CHF 5.2 billion for acquisitions and divestments.

During 2018 we bought back nearly CHF 7 billion worth of shares through our share buyback program and we paid over CHF 7 billion in dividends. This means that we returned CHF 14 billion of cash to our shareholders in the course of 2018.

Our net debt to EBITDA ratio stood at 1.6 times which is in line with our expectation. We communicated initially an outcome of our share buyback program leading to a net-debt-to-EBITDA ratio of around 1.5 times but it has now become 1.7 times as a result of IFRS restatements.

Slide: Closing remarks

To conclude, all financial metrics showed improvements in 2018. Mark covered already the guidance, so I will not repeat it. We expect, obviously, to make continued progress in organic growth and margin in 2019.

Just two items to consider for 2019, we expect some commodity headwind and we expect phasing of sales with a soft Q1 linked to calendar events and more specifically the timing of Chinese New Year and Easter. This obviously has been factored into our guidance and plans for pricing, et cetera.

That concludes my presentation. I'm now handing over back to Luca for the Q&A session.

.Q & A Session

Luca Borlini, Nestlé S.A. Head of Investor Relations:

Thank you, François. With that we move now to the Q&A session. We open the lines for questions from financial analysts. [Operator Instructions] Also, please limit yourself to no more than two questions.

Now the first question is coming from Eileen Khoo from Morgan Stanley. Please go ahead, Eileen.

Questions on:	**Relationship between SBU and markets for innovation** **Performance of recent acquisitions**

Eileen Khoo, Morgan Stanley:

Thank you. Hello, Mark, François and Luca. Hope you're well. Two questions from me. So the first one is on actually ramping up on innovation. It sounds like you're happy with the progress made on commercialization of R&D. I was wondering more about the downstream side of things. So the relationships between the SBUs and the markets, do you think you're where you want to be now on this front as well or is there more to be done to increase agility here? That's the first question.

Then secondly on your recent acquisitions, can you give us an update or more colour on the performance of the 10 or so acquisitions you've made in the past two years. Give us some colour on the learnings, maybe even mistakes so far, and how you've been able to apply these to your main businesses to-date? Thank you.

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

Thanks, Eileen. So on the first one, let me say, when I refer to innovation I do not only mean R&D, I also mean the new and improved working relationship between research and development on the one hand, and our strategic business units on the other hand, so that we are working on guided projects and projects that really make sense and are in line with where the markets are going. So that has improved a lot.

Then your question was further downstream on the relationship between the strategic business units and our various Zones and markets, I think that also has improved significantly, in particular as a result of some of the leadership changes we've made, and clearly people do make a difference and we pay particular attention to people working well together. But we're not resting there, I think we're also strengthening the rules that govern the working relationship between the strategic business units on the one hand and markets and Zones, on the other hand. So all of that is work in progress, but I'm very happy with the progress we've seen so far in that direction.

When it comes to the acquisitions we've done, let me say one thing generally, whether it's the last two years or the period before, we've always been very, very diligent on acquisition tracking and sort of a post-mortem type analysis and the learnings from our deals. So that is something that in the past we already spent a lot of time on and clearly François and I have spent a lot of time on it so that we can keep improving.

Overall, on what we've done the last two years, I feel very good and – in particular on the larger deals that François pointed out and that is the progress we've seen so far in *Atrium* and the progress we've seen so far on *Starbucks*, we're very, very happy. Please note on *Starbucks* since we just launched that coffee range yesterday, everything we've done so far has been ahead of schedule. So we're feeling very good about this. I feel very good about the partnership with *Starbucks* because that is a very close partnership and the global coffee alliance clearly has to work hand in glove to make good progress here.

I think also that for the existing base business from Starbucks that we purchased in the United States when you look at the four months of 2018 between September and December that has grown very nicely and continues to do well.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Thanks Eileen. Next question comes from Jean-Philippe Bertschy from Vontobel.

Questions on:	**Coffee business** **Net Debt to EBITDA ratio**

Jean-Philippe Bertschey, Vontobel:

Good afternoon, gentlemen. Maybe, Mark, to rebound on the Coffee business and the *Nespresso*, if you exclude Vertuo line you have like flattish or a low single-digit growth in the rest of the business and you opened like close to 100 shops, how can we see that or how do you see that going forward including the *Starbucks* compatible capsules?

The second one is to rebound on François comments with your net-debt-to-EBITDA of 1.6 times, the highest in the history, maybe if you can share your vision or your views beyond 2020 in terms of acquisitions? Thanks.

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

Thanks Jean-Philippe and it is true that on the small capsule, in particular when it comes to some key European markets, we've seen disappointing growth in light of intense competition. I think this is where having now a new tool in the tool shed with our *Starbucks* range will make some difference. Excluding *Vertuo*, I mean for analysis purposes that's fine, but remember we do own *Vertuo* and hence the success that we have there is for real and it contributes to *Nespresso*'s growth just like any continued progress we're seeing with the small capsule in other markets outside of Europe.

Clearly, the shining light if you will is our continued progress in North America with significant double digit growth and there's no end in sight here. So that's very, very promising. So yes, on the small capsule we have to face competition. But again, it's going to be a whole new game now this year and we look at that with a lot of interest. Then I'll hand it to François for the net-debt-to-EBITDA question.

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

Good afternoon Jean-Philippe. So on the net-debt-to-EBITDA, once again we are fully in line with what we communicated at the time of the share buyback program after the restatement, linked to IFRS restatement. Difficult to say what it will be in 2020 and especially if you refer to M&A. You are fully aware obviously of the fact that this ratio net-debt-to-EBITDA is not only dependent on M&A, but it is also impacted by many of the factors and starting with the EBITDA.

So the fact that we are growing nicely, the fact that we're improving our margin, the fact that we have discipline in CapEx, the fact that we are reducing our working capital have a significant impact as well. That being said, we don't provide the guidance as far as net-debt-to-EBITDA, we just provided an indication of this ratio of 1.7 times by the end of the programme which was supposed to be mid-2020 which is now end of 2019 and we will meet that figure.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Thanks Jean-Philippe. Next question comes from James Targett from Berenberg.

Questions on:	**Cost Savings** **Infant Nutrition in China**

James Targett, Berenberg:

Hi, good afternoon everyone. Two questions. Just firstly, on the cost savings. Can you just give us an idea of where you're tracking on the CHF 2 billion to CHF 2.5 billion at the moment, particularly the different cost buckets you outlined which is manufacturing, procurement and G&A, where you're sort of overshooting and undershooting.

And then, secondly, maybe just on the good progress in the Infant formula, maybe some comments on the China market where you're seeing market growth there particularly going into 2019 and how you're doing on a share basis? Thank you.

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

James, I'll cover the first part of the question on cost savings. So we had indeed indicated a target of cost reduction of about CHF 2 billion to CHF 2.5 billion. I'll give some further colour in some coming conferences I will speak at. That being said, I can already tell you that we are fully in line with what we expected. As of the end of 2018, we have delivered, roughly speaking, half of what we expected to deliver over the four year programme which is interesting. As we expected, it's a little bit easier and faster to deliver on G&A. On procurement, we had started reasonably early. So as far as procurement is concerned, we have delivered most of the savings but we are looking at additional ones.

As far as G&A we are pretty much in line with what we expected half of it. As far as manufacturing, this takes a little bit more time to execute given that there is more complexity in it. So obviously, we are at less than half of the programme, but I will provide some further colour in a couple of days.

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

James, on the Infant Nutrition business, I think the important thing here is – and I'll get to China in a second – that reorganization lead to performance improvements across the board. It's just been absolutely amazing and this is like completely removing a lid here from the performance. I think that was absolutely overdue because in a sense we have so much we can bring to the table in Infant Nutrition when it comes to technologies, market shares, the global reach, the history, the brands and it just somehow was not translating into success in the marketplace in the previous years and I think we're now seeing an impressive rebound.

In China, in particular, I think overall the market has stabilized and we're making some gains in super premium and success really came from continued premiumization in some core innovations such as organic and A2 based milk products. Then we've also seen very strong growth in cross-border e-commerce albeit from a smaller base as you know because we were kind of late to ramp this up. But I think we are really firing on quite a few cylinders there and that also gives me a hope here when it comes to the future.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Thanks, James. The next question is coming from Alain Oberhuber from MainFirst. Go ahead, Alain.

Questions on:	**US performance in Ice Cream, Stouffer's and Lean Cuisine Pricing**

Alain Oberhuber, MainFirst:

Thank you very much, and good afternoon Mark, François and Luca. Alain Oberhuber, MainFirst. I have two questions, first is regarding U.S. Could you give us a little bit more light what the development of the U.S. Ice cream was over the year regarding top line, but in particular more regarding margins. And the same is in U.S. regarding Stouffer's and Lean Cuisine, what we could expect when these two brands will improve again?

The second question is regarding pricing, François, you mentioned that there will be a tailwind regarding input costs, so I guess pricing will go up, would you highlight a little bit in which areas that could be?

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

Alain, thanks for your question. Let me take the first one and then hand it over to François.

So, on the U.S. and let me take the Frozen part head on because this is something that has come up a few times. And yes, let's be very open, when it comes to Frozen meals, we did not have a good year and we just own up to that. We're working intensely to address that situation and I'm very bullish when it comes to expectations here going forward. So this is a situation we're taking head on and we're devoting a lot of time and effort to addressing the situation.

Pizza has been doing better which is why you may have seen in the press release on a combined basis we're coming out to about a neutral situation, but Frozen meals, it was very clear that what we've done in prior years was too much of a one shot type of improvement on the old innovation model. What we really have to apply now is this continuous improvement, basically hit the market all the time with new and improved products and stay ahead. So you'll see us move in that direction.

Ice cream, I think we've been making good progress when it comes to margins and also addressing the growth, but we're not itemizing that in particular. But it's a business where we've learned of course from some of our other business situations in Ice cream most notably our Froneri joint venture here in Europe and we're applying some of those lessons.

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

Good afternoon, Alain. As far as pricing is concerned, so indeed we expect to get a little bit more traction in 2019. This is largely linked – partly to the fact that we will get the full impact of what we implemented over the last year starting with Waters because we implemented our price increases in the U.S. in June. So we'll get the full year benefit of it. You saw that we left 2018 with a better level of pricing because it was at 0.9%.

You referred to input cost, indeed we expect a moderate increase in input cost in 2019. This is especially coming from packaging material on milk and there obviously it will probably help us a little bit as far as pricing is concerned.

Pricing is also influenced by other factor, obviously a competitive situation. It is also impacted and this has been the case in 2018, not only by input costs but other factors like transportation cost, we have no evidence that these costs will go down or we have rather indication that they may continue to move up. So we'll see, but certainly more pricing in 2019, without creating too much expectation either.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Thanks, Alain. Next question comes from Jon Cox from Kepler. Go ahead, Jon.

Questions on:	**Dividend payout ratio and share buyback programme** **Seasonal effect on Q1**

Jon Cox, Kepler :

Yeah, thanks very much. Good afternoon, guys. Congrats on a good set of figures there, indeed. A couple of questions for you. First one actually on the balance sheet and just to follow up from JP's question. The payout ratio has gone down, the dividend actually increased, it's probably lower than the market expected, at the same time you've brought forward the buyback. I'm wondering what the thoughts are there because if you're worried about net-debt-to-EBITDA levels this year you could have kept the buyback going into next year? Are you trying to bring down expectations on the dividend payout ratio? You've been around 66%, 67% for the last couple of years. You've come down now to around 61% or so. Should we expect that going forward? And what are your thoughts on future buybacks if you put it – brought it forward because you think you can start another buyback maybe already in 2020, so really sort of a balance sheet capital allocation question there.

Second question just on the sort of seasonality, Chinese New Year that sort of stuff. What would be the swing, do you think Q4 was boosted by up to 50 basis points because of that, and as a result, Q1 will be 50 basis points lower or how should we think about that sort of Q4, Q1 swing as a result of seasonality? Thank you.

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

Jon, this is Mark. Let me start, I know it's a balance sheet question, but let me start on this whole notion of the payout ratio and buybacks. As you know, we're not providing guidance here for payout ratios going forward. But yes, overall, do I feel better with a payout ratio in the low 60s as compared to the mid-to-high 60s? Yes, I do. So I think there was a conscious choice and one that on the one hand make sure that you saw good dividend growth. In fact, at CHF 0.10 it was twice the dividend growth level of last year in an absolute sense and yet at the same time it brought the payout ratio a little bit more in line.

On buybacks, we'll go through this buyback and then at the end of the year address the situation and see where we are and also assess of course what sort of opportunities we have to invest going forward. Because I think first and foremost our priority should be to deploy capital in productive ways and in a growing industry we should find these opportunities. That's our job number one. Then we'll see how we decide on cash returns going forward.

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

Jon, on your question on seasonality, we had a little bit of tailwind in Q4 but it was mainly only coming from the Chinese New Year. But it's not – certainly not in the range of 50 basis points as you mentioned which is a very moderate impact as far as Q4 is concerned. In Q1, we have two main impact which is Chinese New Year but we have Easter and we have late Easter this year which is going to push a little bit of sales probably from Q1 to Q2. So when you combine those, it's putting a little bit of pressure on Q1, but it's certainly not in the range of 50 basis points lower than that.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Thanks Jon. The next question is coming from John Ennis from Goldman Sachs. Go ahead, John.

Question on:	**Portfolio restructuring**

John Ennis, Goldman Sachs:

Yes. Good afternoon, everyone. A question from me on portfolio restructuring, I wondered if you could talk about the efforts that you've made here and how that will impact the margin as you exit some of these businesses that you've put under review. I know you've talked about how this strategy will help the top line, but just wondering if you could give us a bit more steer on the margin with respect to the 2020 targets. Thanks.

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

John, let me give you some directional input, but we have not published numbers on this. So, on the two businesses that we disposed last year, U.S. Confectionery and *Gerber Life* and also on the two that are under review, if those lead to disposals all of that will be a tailwind to the margin. But we have not itemized how much.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Thanks John. The next question comes from Patrik Schwendimann at Zürcher Kantonalbank. Hello Patrik, please go ahead.

Questions on:	**Guidance** **Loss on disposal of business**

Patrik Schwendimann, ZKB:

Good afternoon Mark, François and Luca. First question regarding your guidance for organic growth, you have mentioned a continued improvement for 2019 and a mid-single digits growth in 2020 as a best guess. Does it mean you should expect roughly 3.1% to 3.5% for 2019 and maybe 4% for 2020, as the year 2020 is approaching fast any hint would be helpful here?

And second question, there was a loss on disposal of business of CHF 1.7 billion, in H1 there was just a loss of CHF 900 million. So there was another loss of CHF 700 million in H2, what was behind this CHF 700 million, is this also partly due to *Herta*? Thank you.

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

Thanks and let me address the – Patrik, let me address the growth question first. So at this point all we have to issue is the guidance as we have issued in the press release and I wouldn't want to speculate exactly where we're going to be in 2019. We feel very comfortable on our path towards 2020 and we feel very confident this is going to be a number above the 3% you've seen for 2018. The one thing I said repeatedly last year still applies and that is most efforts that we talk about on OG kind of have a back-loaded impact. So this is not a straight line unlike costs which was much more of a straight line effort and I think you see it now shape up pretty much as a straight line effort, but on OG most of these things do have a time lag and that is not changing. So anything you do now doesn't impact this quarter or next quarter, it'll impact a few quarters down the road when it comes to boosting OG and that has not gone away. So as a result, OG efforts tend to be more back-loaded than cost and margin related efforts.

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

Patrik, your question on the impact of disposals and the disposal last year. So we made a profit on the disposal of U.S. Confectionery which was quite significant because we have had that business for ever. We've made some loss on *Gerber Life Insurance* disposal.

The net is, by the way, very positive, the net between the two. There were other small items but they were not really material.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Thanks Patrik. Next question is from Andreas von Arx from Baader Helvea. Go ahead, Andreas.

Questions on:	**Targets beyond 2020** **Weak points of 2018**

Andreas von Arx, Baader Helvea:

Good afternoon. I was wondering if you could indicate when we can expect you to start communicating on the targets beyond 2020. Would that already be at your Investor Day this summer or would that rather be a topic for later? I'm just asking because of course the speed that you increased the margin at the moment is quite a different one until 2020 than that you have shown in the, let's say, 10 years before the current strategic period and as such it would be interesting to know when we can expect 2021, 2022 and 2023 targets?

Then second question, I mean you mentioned the Water business and Frozen as weak points of last year. I mean if you would have to name a third pillar what would that be? Thank you.

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

Andreas, on the targets, let me take the suspense out of the Investor Day this spring. This will not be the time to issue new targets. We're in the middle of executing on the old targets and we're pretty conservative guys when it comes to that. You first meet your old targets and then you start talking about new ones and so that's going to be the pattern. That also means if you meet something early you start talking about new ones early, but you start talking about it as and when you meet them. And then I'm not sure I understood the question on the third pillar, maybe you could just elaborate on that.

Andreas von Arx:

Yeah. I mean if I wanted to know three points that didn't work well in 2018, I think you mentioned already the Water business which you were not happy with and you mentioned the Frozen business, I think, where you also have work to do, if you had to name a third one, a third category or market you were not happy with in 2018, what would that be? Thank you.

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

Look it has been improving towards the end of the year, but I think certainly for the earlier parts of 2018 we were also not quite happy with some of the delays we've seen in turning around the *Gerber* situation. I mentioned it now as one of the businesses that returned to positive organic growth in Q4. But early on in addition to the slower rollout on organic, we've also seen a few capacity supply constraints as you know when it comes to packaging and that held back some of the success.

Let me also say just on the first two that you mentioned, there is a different quality between these two, in the sense that on the Waters business, with a supply shock like this, like PET prices going up and in particular distribution costs going up in the U.S., there is no way that in one year you can offset all of that and hence that impact was kind of unavoidable.

Whereas in Frozen that we were on a positive track in 2015 and early 2016 and then I think what we did not have is sufficient pipeline to really keep the lead over the market. And that's why I'm saying what we need to do here is graduate to a new innovation model that's much more regular and keeps the lead over where the market is and we're working on that. So different situations, the first one is kind of induced by the environment. The second one is more self-inflicted and so it's important for me to have that distinction in mind.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Next question is coming from Céline. Hello, Céline.

Questions on:	**Acceleration in 2019** **Inclusion of main acquisitions in 2018**

Céline Pannuti, J.P. Morgan :

Yes. Good afternoon, everybody. My first question, maybe to rebound on the previous ones, what you did well in 2018, you accelerated in the U.S. and in China and you flagged Nutrition, but I think PetCare too, so are those acceleration in key markets and categories sustainable at the rates that you mentioned, I think, 2.5% – 5% for China and between 4% and 4.5% for the two categories and where should we see the acceleration coming from the one that you are flagging in your guidance for 2018 – 2019, sorry, in terms of category or markets?

And my second question, could you share with us how your main M&As have tracked in terms of like-for-like in 2018, that is *Starbucks*, *Atrium* and *Blue Bottle* please? Thank you.

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

Céline, so on the first question, as far as the pace of growth that we had in 2018, is it sustainable for China. I think, it's – we're already at 5%, so it's a reasonable assumption. Obviously, we aim at going further than that, but it was the growth momentum came across the board from all categories. As far as the U.S. is concerned, there is probably room for further improvement and especially in two item that we just discussed, at *Gerber*, we start seeing some signs of improvement especially in Q4 2018, but we are not there fully, and it's a sizable business for us. The same applies to Frozen, which we were basically if we include Pizzas, where we were basically flat last year and we aim at growing further than that. So as far as the U.S. is concerned, there is certainly room for further improvement.

The other question, so you were really talking about, I suppose, the way that we handle the inclusion of our newly acquired company in OG. So when we make an acquisition, we look at well-defined criteria for the timing of inclusion on organic growth which is what we call APM, which is published on our website. As far as last year, in 2018, *Atrium* and *Starbucks* both qualified for inclusion in OG. So we did take them into consideration in 2018. But this depends on a case-by-case basis because it varies from one acquisition to the other. So we have to look at them case-by-case and look at the way that they qualify as per the criteria that we have defined.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Well, I think we do have still one question, David Hayes from Société Générale. Please go ahead.

Questions on:	**Margin** **Buying and selling - Percentage of sales**

David Hayes, Société Générale :

Hello everyone. Thank you. Just two from me. In terms of the margin, you, obviously, hit your 17% number this year, the guidance is now 17.5% to 18.5% in two years. So I guess the first part of the question, is it tempting to commit to being at the top end of that range that you've given or should we take into account plans for extra investment in the next two years? I guess related still to that, you didn't give us a restructuring forecast for this year which I think historically at this stage you've given. Is that because there's more work underway to understand further cost savings that you unearthed by going through that process?

Then the second question from me. I think you mentioned two years ago coming in there was that 10% of sales that the group was going to be adjusted both in terms of buying and selling. I guess, we're pretty much around that number now. So I just wonder how that changes things. Are we looking at another phase of investment in strategic direction or I just wonder what the context is in terms of that previous 10% that you gave? Thank you.

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

Thanks David. So I think on the margin, at this moment what I wouldn't want to do is put us somewhere on that range or handicap the range. So we've fully confirmed that range and we have a large degree of confidence that we're going to be there. But there is no particular change from our approach when it comes to last year or this year and you see continued progress on all of our cost reduction programs. We did mention the restructuring related expenses to be expected around CHF 700 million this year. We'll update you throughout the year how that number develops. That number compares more or less to the CHF 650 billion to CHF 700 billion range that we've had for the past two years. So if anything it kind of confirms ongoing restructuring related activity, so no change there.

When it comes to the buying and selling at around 10% of sales, that was a comment I made during the London Investor Day in September 2017. At that time, if you think back, I mean the only review that was public at the time was our U.S. Confectionery business and when we talked about portfolio change at the time, I just wanted to show you that we were serious and that we were truly contemplating serious change and when you apply 10% to CHF 90 billion book of business that Nestlé has, it was meant to show you that we were not just talking about minor transaction, but serious change. I think now no one has any doubts here that we're serious and you've seen continued activity and you will see continued activity. So the 10% is by no means the ceiling.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Thanks, David. We still have time for a last question. Alan is on the line. Please go ahead Alan.

Question on:	**Q1 Guidance**

Alan Erskine, Credit Suisse:

Hi. Good afternoon, guys. Yes, forgive me, but I'm going to press you on the guidance for Q1, I mean in Q4 your run rate was 3.7%, you're saying that the benefit of the timing of the Chinese New Year was much less than 50 basis points. So you'll get that carry over into Q1, yes, slightly tougher comp, slightly later Easter but then you'll get the benefit of the sell-in of the *Starbucks* launch. So when you say soft, I'm assuming you still think you'll do better than 3% in Q1, is that correct?

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

Alan, we don't want to get into quarterly guidance here. I think you're having a pretty good set of full year numbers. I fully agree with François that when we look at our phasing for the year, we're just trying to tell you that it's going to be a little bit more back loaded and that we have a softer start in the year. The one thing that François didn't mention is we are also going to be having a trading day less in March. So again the calendar is the calendar and we're just trying to be helpful when it comes to expectations for April. But that should not take away from the overall optimism that I hope you hear strongly when it comes to the year overall in the immediate and mid-term future.

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

Alan, if I may even add something, the 3.7% in Q4 2018 was also impacted by the comps which were favourable because we had the soft Q4 2017 as well. So we need to – it's a little bit complex all this, but we have to take that into consideration as well. So when we take the comps and then Chinese New Year and then Easter and then we add up the trading day less, I mean it does explain the fact that we expect a relatively soft Q1.

End of Q&A session

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Well, thank you very much. We come to an end to our session today. We thank you very much for your interest in Nestlé. If you have further questions, don't hesitate to reach out to our Investor Relations department and we look forward to speaking to you in future events. Thank you and all the best.

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

Thank you. Talk to you soon.

End of Transcript