NESTLÉ S.A.

2018 HALF-YEAR RESULTS INVESTOR CALL TRANSCRIPT

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Speakers:

Mark Schneider, Chief Executive Officer, Nestlé S.A.
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. Welcome to the Nestlé Half Year Results Conference Call. I'm Luca Borlini, Head of Investor Relations. Here with me is our CEO, Mark Schneider and our CFO, François Roger. As usual, first, we will present the results, and then, we will open it up for questions. [Operator Instructions]

Slide: Disclaimer

I draw your attention to the disclaimer and our notes on the restatements. And now, I hand over to Mark.

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

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Thank you, Luca and a warm welcome to our conference call participants today. As always, we appreciate your interest in our company.

Slide: Key Messages

We are pleased to share with you today solid progress when it comes to our organic sales growth and underlying trading operating profit margin. As you know, the steady and balanced pursuit of these two value drivers is a major aspect of our long-term value creation model.

When it comes to sales, two of our key country markets, the United States and China, and one of our core categories, Nutrition, have shown improved organic growth momentum. All of our categories continue to post positive organic revenue growth.

Our underlying trading operating profit margin increased by 20 basis points in spite of commodity and packaging cost headwinds of another 20 basis points. We expect a continued acceleration of the underlying trading operating profit margin in the second half, supported by further progress with our efficiency programs, more favourable commodity prices and last but not least, continued progress in our organic sales growth development.

On a combined basis, our sales and margin development contributed to a constant currency increase of close to 10% in our underlying EPS.

Based on the good progress in the first half, we're happy to fully confirm our 2018 guidance. We also narrow our organic sales growth expectation for 2018 to around 3%, which implies a stronger second half of the year.

So all-in-all, we're seeing good progress in our financial results. More importantly, however, we feel good about the progress that has been achieved, during the last six months, in refocusing and speeding up our innovation engine, advancing our portfolio management goals and progressing our various cost reduction initiatives. All of this puts us firmly on track for our 2020 targets and I thank our more than 300,000 associates around the world for the extra effort and sense of urgency as we adjust to, and take advantage of the significant changes in our industry.

Let me hand it over now to François for a more detailed review of our first half results.

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

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

Slide: Half-year performance highlights

Let me start with the highlights for the six months. Our total sales for the first half were CHF 43.9 billion, up 2.3% on a reported basis. Organic growth was 2.8%, consistent with the levels of the first three months. RIG stayed strong at 2.5% remaining at the high end of the Food and Beverage industry. Pricing contributed 0.3% reflecting the challenging environment in Europe and lower inflation in some Emerging markets.

Acquisitions and divestments had a net neutral impact on reported sales with the acquisition of Atrium Innovations and other transactions being offset by divestments, mainly U.S. Confectionery. Foreign exchange was a mild headwind of 0.5%.

Underlying trading operating profit margin rose to 16.1% of sales. This represents an increase of 20 basis points, both in reported and constant currency.

Slide: Broad-based OG and RIG across geographies

This slide illustrates the performance of our sales for the Zones, as well as for – globally and regionally managed businesses by geography.

Our growth was broad-based both in terms of organic growth on RIG with all geographies showing an improvement versus last year. The most notable increase came from AMS and more specifically North America. Within AOA, China showed an acceleration. Pricing was softer than last year in the three geographies.

Slide: Strong RIG in developed and emerging markets

Let's now review our growth dynamics between Developed and Emerging markets. Developed markets saw an improvement of organic growth versus last year, mainly coming from improved RIG in North America.

Pricing remained close to flat. Emerging market posted organic growth at mid-single-digit levels. RIG was helped by improved growth in AOA, most notably China, as well as Middle East and North Africa. Pricing was lower due to deflationary trends in Brazil and lower levels of inflation in Sub-Saharan Africa.

Slide: Zone AMS

Now, let's move to our performance for the five operating segments, starting with Zone Americas.

Sales for the half were CHF 14.2 billion. Organic growth was 1%, driven fully by RIG, as pricing was flat. North America saw positive organic growth in the first half, with material improvement in both the United States and Canada year-on-year. Both RIG and pricing were positive.

By category, PetCare growth was supported by premium brands *Purina Pro Plan* and *Purina ONE*, as well as *Tidy Cats* in cat litter. Coffee was led by *NESCAFÉ TASTER'S CHOICE* and *NESCAFÉ CLASICO*. Creamers did well, helped by premium and natural *Coffee-Mate* offerings. In food, *Hot Pockets* and pizza, particularly *DiGiorno*, were also highlights.

The divestment of the U.S. Confectionery business had a positive contribution on organic growth.

Latin America had positive organic growth, but slowed compared to prior year because of lower pricing and the strike in Brazil. Pricing was still negative in the half, but improved significantly in the second quarter. Brazil continued to face a challenging trading environment. In May, the nationwide truckers' strike temporarily disrupted operations and distribution. We recovered more than anticipated in June, but overall, this reduced organic

growth in AMS by around 80 basis points in the second quarter and 40 basis points in the six months.
Mexico maintained mid-single-digit organic growth with positive performance in most categories. *Nescafé* and *Purina* were the key contributors.

The Zone's underlying trading operating profit margin improved by 30 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 where sales were CHF 9.3 billion. Organic growth increased to 2.5%. RIG was strong at 3.1%, reflecting an acceleration in the second quarter in both Western and Eastern Europe. This more than offset negative pricing.

Looking at growth by region, Western Europe returned to positive organic growth in both the second quarter and first half. Both Central and Eastern Europe, as well as Middle East and North Africa, saw mid-single-digit organic growth.

EMENA is now managed at category level for the Zone. We'll, therefore, provide more details on the category dynamics.

PetCare, Coffee and Nutrition were the main contributors to growth. PetCare delivered mid-single-digit organic growth, supported by an acceleration of RIG in Russia and in other Emerging markets in the second quarter. *Felix* was a major contributor. One of the interesting growth steps in the first half was *Purina*'s acquisition of the majority stake in Tails.com in the UK. This opens exciting opportunities in the area of personalized pet Nutrition and direct to consumer. Coffee also saw good growth with RIG improving since the first three months across markets, supported by the relaunch of *Nescafé Gold*. In the UK, we launched the nitrogen infused Coffee drink called *Nescafé Azera Nitro*.

Nutrition and Dairy performed well in Central and Eastern Europe, as well as in the Middle East and North Africa. Confectionery saw improved growth owing to strong RIG in the UK, France and Russia. We saw exciting new product launches for Confectionery such as *KitKat Ruby*, which was successfully launched – introduced in April across Europe, as well as *MilkyBar Wowsomes*, which was launched in the UK. This product is the first chocolate using Nestlé's new structured sugar, to reduce sugar by 30% versus comparable bars. The sugar reductions come, thanks to a Nestlé scientific breakthrough based on natural ingredients.

The discipline category structured approach in the Zone created efficiencies, which supported improvement of underlying trading operating profit margin by 70 basis points. The increase was also helped by lower commodity cost, as well as by strong RIG that also led to better industrial capacity utilization and better operating leverage.

Slide: Zone AOA

Moving now to Zone AOA, with sales of CHF 10.6 billion, organic growth was 4.4%, with RIG of 3.7% and pricing of 0.7%. Zone AOA delivered mid-single-digit growth with positive contribution from most geographies and categories.

China grew mid-single-digit and accelerated versus last year, with a strong momentum in Coffee and Culinary. New product launches included new *Nescafé* ready-to-drink flavours, and e-commerce did particularly well and sales grew at strong double-digit levels.

Southeast Asia had mid-single-digit organic growth, driven by strong contributions from Vietnam and Indonesia. In Vietnam, *Milo* and *Maggi* grew strongly, and in Indonesia, *Bear Brand* and *Milo* performed well. South Asia had mid-single-digit growth, supported by innovation and renovation, particularly for *Maggi, KitKat* and *Nescafé*.

Sub-Saharan Africa posted high single-digit growth, even as inflation-driven pricing slowed versus last year. *Maggi* and *Milo* were the key drivers. Japan and Oceania were flat with positive RIG, offset by negative pricing in a deflationary environment.

The most important development in AOA that we have to mention is that Nutrition saw improved sales momentum in most markets. China's organic growth was close to mid-single-digit in the half, clearly improving versus last year. There were encouraging results from recent launches such as Organic and a2 formulas and strong growth by *Gerber* infant cereals.

AOA's underlying trading operating profit margin remained strong and highly accretive to the group. The decrease of 20 basis points was due to the phasing of certain cost items.

Slide: Nestlé Waters

Next is Nestlé Waters, which finished the first half with CHF 4 billion of sales. Organic growth was 1% following a sequential improvement in the second quarter, driven largely by North America. RIG declined by 0.7%, mainly due to Europe and some Emerging markets. Pricing increased to 1.7%. The United States saw positive growth. Both RIG and pricing were positive. Price increases were implemented in June to reflect significant inflation in packaging and distribution cost. RIG improved sequentially in the second quarter, helped by the launch of the sparkling range under the six regional spring water brands.

Europe saw slightly negative organic growth reflecting difficult comparables. Emerging markets were flat, impacted by negative sales development in China and by the pending divestment of the business in Brazil. The international premium brands *San Pellegrino* and *Perrier* continued to deliver good growth.

The underlying trading operating profit margin decreased by 270 basis points. Higher costs related to PET and distribution, we are not yet compensated by price increases that have been implemented in the U.S. in the later part of Q2.

Slide: Other Businesses

Finally, we finish with the other businesses, which includes *Nespresso*, Nestlé Health Science, and Nestlé Skin Health. As from this year, it also includes the Gerber Life Insurance business.

Organic growth was 5.7%, driven by strong RIG of 5.4% and pricing of 0.3%. Net acquisition increased reported sales by 4.9%, mainly with the consolidation of Atrium Innovations into Nestlé Health Science from the 1 of March 2018. Total sales were CHF 5.9 billion.

Nespresso maintained mid-single-digit growth. The Americas and Asia saw strong momentum and Western Europe was resilient in a context of high competitive pressure. Growth was supported by the continued progress of the Vertuo system rollout and boutique expansion. During the first half, *Nespresso* opened 20 new boutiques and point of sales to bring the total number to 728.

Nestlé Health Science saw mid-single-digit growth with good momentum in Medical Nutrition. The acquisition of Atrium Innovations provided additional growth in the second quarter, with strong demand for its non-GMO, organic and natural products offerings. Nestlé Skin Health had mid-single-digit growth, but pricing was negative. We saw very good performance in the aesthetic business and with *CETAPHIL* in consumer care.
The underlying trading operating profit margin of other businesses increased by 160 basis points. This was mainly driven by an improvement in Nestlé Skin Health and *Nespresso*.

Slide: Growth by products

Moving now to our performance by product, organic growth continued to be broad based with all categories positive. Our key growth categories of PetCare, Coffee, Nutrition, Water and the Consumer health platforms, when taken together, grew about twice as fast as the others, reinforcing their position as growth drivers, which is fully in line with our focused strategy.

Confectionery showed improvement, helped by the disposal of the U.S. business. Infant Nutrition grew well with 2.9% organic growth for H1, reaching its highest level since 2016.

Slide: Underlying TOP by products

Moving now to the profit evolution by products, overall, margin expansion in all categories was supported by operating efficiencies and successful execution of ongoing restructuring initiatives. Favourable input costs also helped in certain categories. Two categories were affected in H1 by specific factors, high packaging and transportation cost for Water and the Brazilian strike for milk products.

Our leading categories, Powdered and liquid beverages, which is mainly coffee, Nutrition and Health science, as well as PetCare continued to deliver the highest level of margin in our portfolio and their profitability increased even further in H1.

Slide: Gross margin

Looking at our gross margin, we saw a very slight decrease of 10 basis points since the prior year, finishing the half at 49.3%. 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, in line with industry practice.

We had some commodity and packaging headwind of about 20 basis points in the first half. We managed to offset part of this effect through efficiencies in industrial structural cost and conversion cost. For the second half, we expect some commodity tailwind, but there are still some uncertainties linked to commodities that we buy on the spot market like fresh milk.

Slide: Underlying TOP +20 bps

Underlying trading operating profit increased by 3.5% to CHF 7.1 billion. The underlying trading operating profit margin increased by 20 basis points in both constant and reported currency to 16.1%. Margin expansion was supported by operational efficiencies and successful execution of ongoing restructuring initiatives. These cost savings were partially offset by higher commodity and packaging costs and significant inflation in distribution cost, especially in Waters and the Americas.

We had some benefits from marketing spend efficiencies, for example, with the reduction of agencies, with the execution of regional campaigns or the optimization of agreements with suppliers for sampling and merchandising materials.

The underlying trading operating profit margin is expected to improve further in the second half of the year, driven by more favourable commodity prices and further benefits of efficiency programmes.

Slide: Underlying EPS +9.2%

Moving on to net profit and underlying EPS, net other trading income and expenses increased by 70 basis points, with both restructuring cost and impairment of assets, each rising by 30 basis points.

As a consequence, trading operating profit margin decreased by 50 basis points to 14.6% both on a reported basis and in constant currency.

Net other operating income and expenses had a positive contribution of 190 basis points, largely linked to the disposal of the U.S. Confectionery business.

Taxes increase by 50 basis points in percentage of sales, but the group underlying tax rate decreased from 26.8% to 24.2% or 260 basis points. This is in line with what we've communicated before, which is largely driven by the reduction of the U.S. tax rate, which accounted for around 200 basis points of this improvement. The other 60 basis points are coming from the mix of our geographies, categories and activities.

Basic earnings per share increased by 21.4% to CHF 1.92. The increase was mainly driven by income from the disposal of businesses, lower taxes and operating performance.

Underlying earnings per share increased by 9.2% in constant currency and by 10.4% to CHF 1.86 on a reported basis. The share buyback program contributed around 1.5% to the underlying EPS increase, net of finance cost.

Slide: Continued focus on working capital

Moving on to working capital, the 30 basis points decline show that over the last 12 months we continued to make improvements on our working capital as a percentage of sales on the five-quarter average basis. Following several years of significant progress in working capital reduction, we continue to see opportunities for further improvement, but at a more moderate pace going forward.

Slide: Free cash flow

Free cash flow increased by 52% from CHF 1.9 billion to CHF 2.9 billion. This was mainly driven by an improvement in working capital, which was partially supported by favourable comparables versus the prior half year. We also benefited from lower taxes and improved operating profits.

We continue to work on all the levers of cash generation, growth, margin improvement and working capital improvement.

Slide: 2018 guidance confirmed

Before we conclude, I would like to mention that we are progressing well to actively evolve a portfolio with a clear focus on its high growth, high margin categories and products. This includes both acquiring and divesting.

In May, we announced that we are entering a global perpetual agreement with Starbucks, granting us the right to market Starbucks consumer and foodservice products in channels outside the Starbucks Coffee shops. We expect this transaction to close as at the end of August 2018. We confirm the strategic review for our Gerber Life Insurance business. The process is on track and we expect to complete the exercise by year end.

Finally, to close, I finish with our guidance for 2018, which we confirm. Our full year organic sales growth expectation has been narrowed to around 3% with the top line momentum likely to be weighted towards Q4, partially due to comparables. Underlying trading operating margin improvement is going to be in line with our 2020 targets.

Restructuring cost are expected to be around CHF 700 million and we expect underlying earnings per share in constant currency and capital efficiency to increase.
I now hand back over to Mark for his final remarks.

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

Slide: Half-year results 2018

Thank you, François. Before we turn to the Q&A part of the call, I would like to place these first half results in the context of Nestlé's Nutrition, Health and Wellness strategy. As you know, we're committed to a path of accelerated value creation, while pursuing this long-term strategy.

We have outlined specific goals, are on track to meet or exceed these goals and have implemented substantial change at Nestlé. We continue to invest in our core Food and Beverage brands and extend with prudence our portfolio into the promising adjacent area of Consumer health.

We have rapidly evolved and developed the portfolio on both the acquisition and divestiture sides of the ledger. This includes investing in high growth businesses like Starbucks, Atrium and Blue Bottle Coffee as well as divesting slower growth businesses like U.S. Confectionery.

We have committed to specific higher margin targets in our already delivering margin improvements without sacrificing growth. And we have returned significantly more capital to our shareholders including CHF 10 billion in 2017 through dividends and share repurchases and another CHF 11 billion in the first half of 2018. We have also increased our dividend for 23rd consecutive year.

The year-to-date results show some of our progress. We are pleased but not satisfied. We are far from done. There's a lot more to come. Our commitment to investing for the future and leading change of Nestlé is unwavering.

Our progress is the result of a plan, Developed with a complete alignment of our board, its leadership and our management team.

Let me underscore in this context my strong working relationship with our Chairman, Paul Bulcke. We are in full agreement regarding the scope and the accelerated pace of the actions we're putting into place. And we are unanimous in our commitment to analyse all aspects of our strategy as well as ensuring that our structure aligns with this strategy, in all cases objectively and in a fact based manner.

As CEO, I have the full authority to undertake this analysis and implement the right actions to meet our objectives.

The management team and I are moving fast at a pace consistent with a significant shift in our Food and Beverage market environment. In this context, let me briefly comment on our corporate strategy. It is my deep belief that corporate strategy is the movie, it's not the photo. The logic and direction of such a strategy will unfold at the appropriate speed and will only become fully visible over time through consistent operating and portfolio related decisions. This movie builds on solid past foundations. It also requires keeping more than 300,000 employees aligned and motivated, with an understanding of how a change needs to happen in a way that optimizes value, even for the parts of the company that may not be with us going forward.

We will continue to seek out expert views including from our Board of Directors. Several of our directors are consistently delivering enormous value as companies on the cutting edge of managing change in complex and fast moving consumer facing industries. We will continue to look objectively and thoughtfully at how best to advance our plans to increase value for our shareholders and other stakeholders.

Finally, we have continuously sought feedback from all of our shareholders. We appreciate your constructive input, your support and your investment. I know we are all learning a lot from our conversations with so many of you. I look forward to hearing your questions about the results reported today. As this is an earnings call, we would like to focus on our first half performance and prospects for the year.

Luca, let me hand it back to you.

Q & A Session

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

Thank you, Mark. Thank you, François. With that, we move now to the Q&A session and we open the lines for questions from financial analysts. [Operator Instructions] So the first question comes from Eileen Khoo from Morgan Stanley.

Questions on:	**Growth in Nutrition** **Margin run rate**

Eileen Khoo, Morgan Stanley:

Hello. Hi, Mark, François and Luca, hope you're all well. Two questions from me, please. The first one is on Nutrition. It's great to see that you have solid growth there. Can you give some additional colour on the moving parts behind this? So for example, specifically, what the China Nutrition do in terms of growth and share in the quarter, and also, maybe give us some colour on the new formula launch, how much benefit came from that? And are you now tracking on target in AOA, because I think last quarter, you said you were below expectations? That's the first question.

The second question is actually on your margin run rate. So consensus is looking for plus 50 bps for the full year. That would mean that second half needs to be around plus 80 bps or so. Are you comfortable with this assumption and can you also talk about marketing spend, how that trended in the quarter and then some more details on your efficiency programmes so far, where you're tracking versus your internal expectations? Thanks very much.

Mark Schneider:
Thanks, Eileen. Let me handle the first one, and then, hand it over to François for the second one. I think the good news on Nutrition is that the improvement here, in the second quarter, is fairly broad-based. So we're seeing improvement in Zone AOA. We're also seeing improvement in the other Zones. And some of this is launch and innovation related as we explained. We're also seeing on the ground an improvement in the all-important Chinese market and we are also catching up when it comes to cross-border e-commerce.

So I know this is an opportunity we were somewhat slower to embrace, but I think we're making good progress in it now. So I think it's not a one trick kind of thing; it's reasonably broad-based and that's also giving me confidence for the periods going forward.

François-Xavier Roger:
Good afternoon, Eileen. On the margin, I will not comment on the number you gave, but what I can tell you is that in H1, we had some headwind coming from commodity, about 20 basis points, and we expect the situation to be exactly the reverse in H2. So it does make a big difference moving from a headwind to a tailwind.

The other dynamic that is going to help us as well in the second half of the year is the more we are progressing into the year, the more we are benefiting from our efficiency programme across the organization. You ask for our marketing spend, we are progressing well in our programme to improve the efficiency in marketing. As you know, we are trying to ring fence to a larger extent what we do there, which means that the objective is not to reduce, but to contribute some efficiencies, so we are making good progress, negotiating and working differently with media companies, consolidating many of our suppliers, both with advertising agency, sampling and merchandiser as well.

We are doing some campaign, and this is more valid for EMENA, for example, at Zone level and not only at local level, which is very efficient from a cost point of view. We are moving significantly as well to digital media which now accounts for about a third of our total spend.

Luca Borlini:
Next question comes from Jean-Philippe Bertschy from Vontobel.

Questions on:	**E-commerce** **Progress of recent acquisitions**

Jean-Philippe Bertschy, Vontobel:
Good afternoon. I will take two questions. Well, first, in terms of e-commerce, if you can share with us the developments in the first part of the year, especially in China, excluding Nespresso.

The second one is, if you can give us some colour about the developments of Atrium, Blue Bottle and Chameleon in the Nestlé network in the first months of the consolidation, and what you have been doing with these brands versus when they were like standalone base? Thanks.

Mark Schneider:
Thanks, Jean-Philippe. I think on e-commerce, in general, you're seeing continued good progress. And as we mentioned, I think, now, we're also progressing when it comes to the all-important Chinese market and Nutrition. Beyond that, just due to competitive reasons, it's pretty hard for us to go into the details. But I'm very encouraged by the progress we've seen there, given the somewhat late start we had.

On the second question regarding new acquisitions, all of these businesses continue to grow very strongly. So I think that new governance model that we had envisaged where we leave them a certain degree of autonomy and really make it an on-demand relationship where we can help them and really support their growth. I think that relationship, which had been honed on our earlier Merrick acquisition a few years ago, that's really paying off and it's delivering in that new environment as well. I'm particularly pleased with how Atrium is developing for that first quarter now that we have the business with us, so very good progress in the U.S. market.

Luca Borlini: Next question comes from James Targett from Berenberg. Go ahead, James.

Questions on:	**Freight costs in H2** **Margin in Waters** **US Nutrition business**

James Targett, Berenberg:
Hi. Good afternoon, everyone. Couple of questions from me. Just actually going back on the margins, I wonder if you could just talk about how much visibility you have into the freight cost in the second half of the year, whether we should expect a similar headwind to your margins and to what extent, how much the margin decline in Waters do you expect to reverse in H2 on the back of higher pricing?

Then, secondly on the U.S. market, obviously great to see an acceleration there, I just wonder if you can talk about Nutrition business there, the Infant Nutrition business and baby food, particularly the Gerber relaunch, how that's going?

Mark Schneider:
Jim, before I hand it over to François for more details on the margin, let me just say, specifically on Waters, that we fully recognized the margin for the first six months now does not look pretty, but this is exactly the worst moment in time where you see the full impact coming from PET price increases and also that significant increase in distribution costs over the winter and spring and, yet, that has not been rolled forward yet in the form of price increases.

So this is the worst possible moment to look at it and hence, just from a timing perspective, yes, this will relax significantly in the second half of the year, but let me hand over to François for that in more detail.

François-Xavier Roger:
Okay. So regarding the margins, so we had significant pressure, obviously, from distribution and transportation cost in H1. It was about 30 basis points impact in H1. We don't see that weakening in the latter part of the year. The only difference which is, by the way, linked to your second question on Waters, which is as far as Waters is concerned and especially in the U.S. which is a business and geography that has been more hit than any other one in H1,

we will soften the impact obviously on the bottom line because of these price increases that we have put through for Waters in the U.S. which are in the range of mid-single-digit.

So freight is – we are feeling the pressure, I would say, everywhere in the world, but it's more significant in the U.S., because there is a combination of two factors, oil prices moving up as well as the shortage of transportation capabilities in the U.S. Once again, we don't see that declining in the second part of the year.

Mark Schneider:
Then, Jim, on your second question regarding Gerber, as you know, we had this launch activity starting from the second half of last year around our organic line. There is mixed news. On the one hand, the positive news is that the new lines got accepted very well by our consumers. On the other hand, that did not translate into the kind of numbers lift off we expected, because there was a supply shortage of the pouches that we're using for that product. That's going to relieve itself soon, and then, we expect the attractiveness of the product to shine through more strongly. The other thing I would like to point you to is that Gerber is one of those brands and product line-ups that's doing quite well on the e-commerce channel into China.

Luca Borlini:
Next question comes from Martin Deboo from Jefferies. Go ahead, Martin.

Question on:	**Structural and operational changes needed to achieve innovation pipeline changes and cost reductions in EMENA and the Centre**

Martin Deboo, Jefferies:
Yes. Good afternoon, Mark and François. Martin Deboo, Jefferies. Two – well, one question really, just alluding to the comments on the front page about changing the innovation pipeline and also cost reduction efforts in EMENA and the Centre. I'm not looking for numbers here, but I'm just interested what's changing in terms of the model on both of those, what is the structural and operational change you're making there to achieve those.

Mark Schneider:
Martin, I think you're absolutely right on the innovation. This is not so much of a numbers thing. We're not looking at the R&D area as a source of savings. I think I said frequently in public that I'm looking for payback. I'm looking for good results coming out of our R&D efforts. Hence what we've done now, under our new Chief Technology Officer, is we rededicated a lot of these projects to things that give us an improved flow of new and attractive products at a nearer moment in time and also refocused that R&D portfolio more towards the Food and

Beverage core of the company. So that's going really well and I'm very pleased with the fast execution mind-set I'm seeing in this area. I think you're seeing some benefits from that already.

When it comes to Zone EMENA and headquarters, there is not one thing that we could point you to. As you look at the news flow coming from our company, there's hardly a week going by where you don't see significant restructuring steps in various European country markets, and then, also including here our headquarters and the Swiss country market.

So this is basically the summary of those initiatives that you've seen reported all throughout the first half of the year.

Luca Borlini:
Next question comes from Jon Cox from Kepler. Go ahead, Jon.

Questions on:	**Growth outlook** **2020 goals**

Jon Cox, Kepler Cheuvreux:
Thanks so much, guys. Jon Cox, Kepler Cheuvreux. A couple of questions. Just the first one really on growth outlook for this year, you talk about Brazil maybe costing AMS 80 basis points. As a result, then I guess the underlying organic was probably around 3% already in H1, you're talking about an acceleration in H2. Why is guidance only around 3% rather than say minimum 3%? That's the first question.

Then, a second question really for Mark and I know this is a call about what's happening this year. But you obviously – it was interesting in your closing statement there obviously addressed lots of different audiences, and you talk about being on track to meet or exceed the goals you've set out and obviously, those goals are returning to mid-single-digit organic and somewhere around 18% trading operating margin by 2020. I wonder what exactly you were referring to when you're talking about meeting and exceeding these goals. Thank you.

François-Xavier Roger:
Jon, good afternoon, François speaking. I will answer the first question on the growth outlook for the second part of the year. We are confident about the second half and this is a reason why we have narrowed our expectation for the full year to around 3%.

You mentioned one of the upside that we see, Brazil. So we lost indeed significant volume in the month of May. We did recover actually fairly well in June. We did not recover everything, but we still have some uncertainties on the recoverability of the other half that we have not recovered in June. There are still some uncertainties there.

There are also a certain number of uncertainties as well, for example, we are obviously more optimistic as far as Waters is concerned for the second part of the year for two reasons, because of the comps that are certainly much easier on the one hand, because of the price increase that we have put through. But there again, when we talk of price increase, we know that there could be potentially some negative elasticity on volume. So it's still early to make a final call on that. So all-in-all, once again, we are confident, but there are still some uncertainties, which is a reason why we want to be confident, pass a message of confidence, but with a message of caution as well.

Mark Schneider:
Jon, this is Mark. With regard to your second question, I mean these statements were, of course, meant for all of our audiences and all of our shareholders, and this is not a veiled increase in our midterm expectations. I think it's the standard verbiage that I've been using all the time and that is that we very much believe in a meet or exceed mind-set to give you reliability and faith and confidence in our numbers.

And as you've seen now, coming out of 2017, for the one item that we could control right away, and that is cost and margin, we delivered in 2017. We didn't deliver on the growth. I appreciate that. But again, to revive growth and the slow growth environment, as we explained many times, does take some time and effort. Now, when it comes to the first half of 2018, you're seeing us deliver, I think, on the growth and the margin side of the ledger.

As we said, there were some headwinds in the first half, but I think some of that will relieve itself when it comes to margin in the second half and hence we expressed confidence here that we're fully on track for these 2020 targets. So again, I think we're doing well. We're trying to reiterate that confidence to you, but there was no hidden message here.

Luca Borlini:
Next question comes from Alain Oberhuber from MainFirst. Go ahead, Alain.

Questions on:	**Ice Cream in U.S.** **Herta and Wagner Pizza in Europe**

Alain-Sebastian Oberhuber, MainFirst:
Good afternoon, Mark, François and Luca. Two questions from my side. First, regarding the Ice cream business in U.S., did you see positive organic growth there and an improvement in margins as well or did you have to take more restructuring measures in U.S. Ice cream business?

The second question is regarding Europe. Did you see – what was the development of the *Herta* brand as well as of *Wagner Pizza* brand in Europe and how was the margin development of these two brands?

François-Xavier Roger:
Good afternoon, Alain. I will take the first question on U.S. Ice cream. Actually, as you know, we announced a project that we have been – that we started a year ago, which is called Seminole, which aims at really restoring an attractive level of margin for U.S. Ice cream. We are making very good progress in that regard. So this is the main focus that we have.

I'm not saying that it is putting a little bit of pressure on the top line, but let's say the role that we've assigned to this category as far as the U.S. is concerned is predominantly a significant margin improvement. That being said, I mean the top line is okay, but this is not the main focus that we have.

On pizza, on *Wagner*?

Mark Schneider:
Yes, Alain, I think on Europe since you asked specifically about *Herta* and *Wagner*, would you not disclose in detail those growth in margin numbers. Let me say that we're not quite happy yet and I think we made that clear in the past that these are areas that we need to work on intensively and we are.

Luca Borlini:
Next question is coming from Patrik Schwendimann from Zürcher Kantonalbank. Go ahead, Patrik.

Questions on:	Price increases in Europe, Japan and U.S. EBIT margin

Patrik Schwendimann, Zürcher Kantonalbank:

Good afternoon, Mark, François and Luca. Most likely, input costs will be higher again in 2019 I guess. How realistic do you see price increases in Europe, Japan and U.S. in the next quarters and in 2019? That's my first question.

Second question, you have an ambitious target for 2020 for organic growth to reach again around 5%. At what point in time would you sacrifice the EBIT margin to push sales more with marketing? Thank you.

Mark Schneider:

Patrik, on the price increases, again, short-term now, in the first half, you saw that we had to take that headwind and we didn't have enough projects lined up to offset it. On 2019 and 2020, I'm more encouraged by some of the internal projects we have underway to reduce our commodity costs. I think we're doing a lot of work in the purchasing area to become less single source reliant and to have more competition and more suppliers, and hence, that will help to offset some of these problems.

When it comes to price increases, I mean generally, in this environment, even if inflation does pick up, in a day and age when there's a lot of pressure on the retail trade and when we also have more transparency coming from digital, this is an area where it's harder than it used to be in the past to roll forward price increases. Nonetheless, I think some of these price increases, and U.S. Waters is a good example, are entirely possible and hence, it's all about prudent timing and also a good measure here and not taking excessive price increases.

When it comes to the 2020 targets, again, we are interested in the balanced pursuit of growth and margin and we are on track on both of these. So, for now, I wouldn't want to get into a discussion as much as I want to be helpful, but I wouldn't want to get into a discussion on trade-offs here between these two.

End of Q&A session

Luca Borlini

Well, this was the last question that we have today. So we thank you very much for having participated to the Nestlé conference call. I thank you, Mark and François. If you still have questions outstanding, do not hesitate to reach out to our Investor Relations department and we look forward to speaking to you again at the next nine months sales conference call, which will take place in October. Wish you all the best.

End of Transcript