NESTLÉ S.A.

2016 NESTLÉ INVESTORS SEMINAR VEVEY
Q & A SESSION

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Speakers:

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

Question on; Defining Resources to Generate Growth

Gosia Eggimann, Banque Lombard Odier & Cie:

I have a very general question. During these two days we got a clear vision; if I look at P&L, all lines, we got a clear vision of what you want to do about cost savings, what you want to do about all reduction items. We also got presentations on different brands, all the opportunities of the different products that can be deployed global or to different countries, extensions and so on.

The question I am asking myself, after these two days, is what prevents you, as of today, of defining exactly what the growth potential is and what resources you need to put behind. What we have understood right now is that you can clearly see what kind of savings you can do but it is not clear yet how you want to use these resources and what kind of growth it can generate, what kind of marketing spend is needed and what investment in R&D is needed.

So can you describe the process that is going to be deployed to define precisely what kind of growth we can expect?

Paul Bulcke, Chief Executive Officer, Nestlé S.A.;

I would really want this to be so simple too. As I have mentioned Nestlé has many moving parts and decisions are made on many levels. Support behind brands, commercial programmes etc is done in the markets. We have programmes here on R&D and we have quite a lot of product development done in our factories, we have 450 factories. These are all moving parts. Actually I am privileged because I am enjoying the law of the big numbers, when you add it all up it smooths the whole thing out. This is like a bicycle, it is permanently adjusting. We have every month an Executive board where we really go into the details, seeing what works, what is going faster, what is going slower and we adjust permanently.

The fundamental thing is that we do see upsides on operational, that's NCE, on structural resources that we feel are locked in where we feel we can use them better somewhere else.

We do see needs of higher R&D spend because I really be believe there is a competitive advantage and I hope we have shared some of that with you. There is deeper science coming in that we want to use to drive our growth and profitability. There is also more need for competitive identity behind our brands in the future.

So what we see is that we are going to unlock resources, we are going to create true innovation, offers and products that have better margins – hence portfolio management and the mixture. To simplify to have better brand support, to compete better in the market place and returns, which is the bottom line, to have returns on invested capital.

I understand that you want to have a figure. But top line, bottom line, capital efficiency and consistency that is what we promise and we are going to handle this like a bicycle, permanently fine tuning this equation. That's a strong commitment. And to do this consistently over time – good times and bad times. Sometimes you have tailwinds, sometimes you have headwinds. Then you have to push a little bit harder and that is actually what we have been doing for quite a few years now, pushing harder. Ask the people.

I understand your question, you understand that I cannot answer that is going to … 4.1, 4.2, 4.3 … I don't do that, that is not how we can manage a company like ours. But what we want to do is to show you some reliability and consistency over time. We want to be on the higher end on growth, definitely.

Question on; Brexit

Alain Oberhuber, MainFirst:

I have a question regarding Brexit. Have you taken any precaution or is it business as usual?

Paul Bulcke:

No, I called every Englishman! First of all we have a natural hedge because we produce so much locally. That is a natural hedge that we have as a company that we basically produce and sell locally. We have local management and we have to live in the reality of all that.

Let's see, I think reason will prevail, I'm quite confident that reason is going to prevail and let's just see. Look first of all there is no specific need to say if that happens we are have to a close factory A, B,C and D because we are hedged there by localness.

There are so many things what if, what if, what if? We have some contingency plans on big things, we have risk analysis framework which is quite explicit on some things and you know what the biggest thing is, that we have in that risk management – trust. I mentioned it before and that is the biggest one. We have some examples, rightly or wrongly, that we have been shown here, but when you lose trust that is millions gone.

I don't think Brexit will be hitting the top ten of Nestlé risk assessments.
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François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

I think is part of our daily business - Brexit. We have talked about Argentina we could talk about Venezuela or Russia, I think it is part of our daily business. We are obviously running a certain number of scenarios on protecting our interests – be it on the assets or the liability side for any of these cases but it is really business as usual I would say. Especially so as we don't know what will happen but we have to take that into consideration.

Question on; Portfolio Management

Patrik Schwendimann, ZKB:

In terms of the portfolio management how much in terms of cells do you still have to fix or sell in the future?

Paul Bulcke:

Fix or sell? We had something like 10% that we were looking at and we have done something like 80% of it or something like that. We are quite stubborn too in terms that we have quite a few that we want to fix. Fix means not just that we bring it out of negative but that it becomes accretive to the mix. But I think we have done quite a bit.

Now it is a dynamic tool, moving in time. Certain businesses that were doing well may shift into a lower gear. So it is a permanent thing linked to our yearly cycle of strategic planning in our company. The tool is not a tool that François uses and that is it. The tool is something that everyone in the market uses, every year, in his own planning process. The strength of the tool is that it has allowed us, and this is not a new tool; we have always done portfolio management if not we would not have gone after acquisitions and brands as we did. But what we did a few years ago was to standardize and discipline it in such a way that everyone speaks the same language. So that we don't have these classic corporate discussions as 'But that is your figure, my figure is different'. No. That is the discipline on the 2,200 cells we have driven by the market.

We can then here aggregate, thanks to the data systems we have, the category in a region or the category worldwide or in a geography. That is what we do on a higher level and that is then the broader portfolio management that you may have seen some projections from. Every market has the same map charts.

It's a permanent tool and we are always going to have businesses that are starting to fade into territory that we want to clean up, re-invest or re-define. There are always going to have parts of the business that we are going to say look this not any more for us, other players may be better at it. But I think we have already done quite a bit you saw it already – over two billion of selling off. That doesn't mean that was it. We have done a lot of fixing also in the meantime. We have also accelerated quite a bit in many categories we have put more money because it is working well we want to surf the wave. Coffee is one of them, also in Culinary we have done, in *KitKat* and in certain brands in Confectionery.

It's an on-going tool. A very good one.

Question on;	**Investment in Skin Health and Health Science and margin outlook in these businesses.**

Céline Pannuti, JPMorgan:

In 2015 the margin expansion in Food and Beverages was 30 basis points and there was a drag from Skin Health and Health Science. I understand that there is faster growth and that you want to put investment behind it but have you now put in enough investment in order that the margin of this business – going forward – is stabilized or going up. So maybe you can talk about the outlook for that. And where was the money spent. The margin went down a lot. There was the issue of the rebates and the issue of the acquisitions but even beyond that there was still a big gap.

Paul Bulcke:

First of all I don't like when you ask 'Where did you spend the money?' We want to invest. It is an important difference though. These are platforms that we are actually resourcing now. We are building them up. I don't want to say to you we are building the platforms for 5-10 years so wait for us and we are not going to be driving results during in that time. Again we are dancing on that thin line of combining short term delivery and long term investment and delivering later on. So these are two platforms we are investing in for the time being. So adjusting, investing, profiling. We have engaged and we do some de-risking there as the timelines and the engagements are a little bit tougher and I am happy to have François there who knows what we are talking about but these are the things we are doing.

What we do want to do there is that it should be accretive to growth, definitely and it should not be a drag in the short term on the bottom line because there, with a higher risk profile, I need more bottom line, that's the logic. So we want to see that in the near future – starting to be accretive to our business model.

Question on; Global procurement and foreign exchange exposure

Eleanor Taylor Jolidon, Union Bancaire Privée:

I would just like to come back to what you were saying about global procurement and wanting to get a feeling of to what extend foreign exchange considerations come into play here. You mentioned the natural hedge that you have in the UK in the context of Brexit but if you are going to start centralizing a little bit more of your procurement it might lead to more variations in terms of your foreign exchange exposure.

Paul Bulcke:

I will give this to you [François-Xavier Roger] but basically in terms of global procurement doesn't say that everything is going to pass through Vevey. So again that will be globally framed, globally steered, globally structured, global deals where it makes sense but call those in factories – we are not going to ship products through Vevey, there are not enough highway for that.

So again shared services, or sharing scaling up doesn't mean centralizing *per se*. That's my first answer. I wouldn't like to lose this natural hedge we have. We are not in the speculation business of currencies. But there is certain hedging to be done to stabilize our cost base basically. That is why we also have some dimension of futures, only to stabilize our costing. Why? Because we know also that pricing is not as agile towards retailers as maybe sometimes our cost base of raw materials. That's my answer.

François-Xavier Roger:

I think that the main objective is obviously to leverage on scale as far as procurement is concerned which is the reason why we can more above market, either regionally or globally.

That being said you have a point obviously that it could impact negatively our bottom line in terms of exchange exposure but that is ease to manage because we can use hedging instruments. We can't hedge in a given market if the currency is falling down the cliff. That we can't hedge because there is no transaction there but whenever we have transaction of import – export that is relatively easy to hedge. It may have a cost but this is not an issue at all.

Question on; R&D Investment

Jhoanna Alba- Harkort, Deka Investment:

When you mentioned that you saw or feel that there is a greater need for higher investment in R&D because you want to extend your competitive advantage I think we are very supportive of that if it does extend your competitive advantage. The question is do you have a clear path already, a visible path of how this can be commercialized and how much this will be Pharma type trial and error R&D. Please excuse the term.

Paul Bulcke:

This is always the hundred million [dollar] question, right? R&D. It not just a matter of just more I think we also have upside in structuring R&D better. We have these two dimensions – category wise and then transversal - technologies. There we are structuring and also re-structuring happening in our R&D set up to go for more efficiency.

I say it more as a general concept. You see it all over, our strategic direction of added-value, linking food with nutrients, nutrients with health, through normal food and beverages. But these other dimensions that we are building up are going into levels of additional of knowledge, science, development that, if we want to build competitive advantage, and the more science linked your business is, if you do it right, the more competitive differentiation you can have. I want to be there.

You just think where you saw some of these sugars – material science. Food was texturisation, raw materials, supply chain, processes, flavourisation, we are good at that. If you start to move to another layer of material science. How you can make crystals that are different that dissolve differently – I think you saw that today. That is another story. I think that brings it to another level.

If you think about food is linked with health in a more direct health inducing way and you think about the microbiome and you had already quite a few routal answers to that – probiotics actually are about the microbiome. There is so much more that goes in that direction. You saw the example of epilepsy, think about that, the example you saw. These are just examples, tips of the icebergs, and if you go deeper there is an amazing amount of potential that society, not only Nestlé, but society is starting to discover. I want to be on the front line in whatever touches nutrients. I don't want to go into Pharma but nutrients

Nutrients are increasingly having a functional role there that is to be understood. Well to understand you have to study and to study you have to invest. That is why I say I see R&D having a more predominant role and cost linked to that, driving this company by differentiating and finding solutions before the others, by building on our brands with additional arguments.

We have products like *Vitaflo*. I could tell stories that are really motivating to see what food and the right formulation can do for health, especially in babies, you can make a difference between handicapped or not. Well we want to be there. It is good for society definitely and there is a business purpose linked to that too. That is why say, now how much is that? I don't know. That is also why I don't want to do it all under our roof. We want to share, we are much more in networking, in growth funds, in venture fund dimensions. In being part of start-ups, in having outposts somewhere to be linked in. Our R&D is more having the right people, not doing these things but knowing what is happening in the world. So we want to have the capability to do things, processes, product technology centres, but we want to also have the best guys around who really know what is happening where and where we should engage and where not.

That is what we are building up with the Nestlé Institute of Health Science, That is what we are doing with having connections with start-ups, in Boston for example, and so on. I hope we shared some of that with Stefan Catsicas when he was talking. He only showed just some things, the whole innovation you saw, and hope you saw quite a bit, this is only part of it, we are not showing you everything because there is quite a lot more happening that we want to surprise you with. But that is deeper science and I think more investment.

Question on;	**Nestlé Model and EPS target**

Robin Asquith, JP Morgan Asset Management:

We had the opportunity to meet the chairman earlier this year in a roundtable discussion and we were talking about the change in the metric for EPS growth where management incentives kick in and that number was reduced by one percent, I think it was down from seven to six or something like that. Presumably that has impacts and feeds through to the Nestlé model. It seems to suggest that the Nestlé of model of 5-6 is more of an aspirational target given the low inflation. I guess the reduction in EPS target reflects the deflation. Is that a good way to look at it?

Paul Bulcke:

First of all I see the 5-6 as an ambition not target and EPS is part of it. When speak about top line bottom line capital efficiency that is basically something that you drive operations with, that is how you drive markets. Actually return on invested capital *per se* is something you have to model wherever you use it, if I use it in a market, and you saw for example Nigeria, Nigeria still has factories and investment which some markets do not, but then it is top line bottom line added it up on the right level so you have return on invested capital. It is clear that we also use EPS and judging how we drive value creation there too.

The 5-6 percent ambition is definitely part of your equation that makes a big difference in EPS but we have our targets there definitely, clearly too.

François-Xavier Roger:

The largest factor influencing EPS is trading operating margin which is really part of our incentive programme anyway. Trading operating margin profit is itself largely influenced by our sales growth. Obviously we are really looking at the entire value chain from the top to the bottom line of the P&L.

Paul Bulcke:

But we are managing the whole tree as well. You (FXR) showed that yesterday. The economic value, the creation, the return on invested capital tree all these different elements. But how do you drive businesses and how do you commit. You have to a framework of incentives. That is what we have longer term.

Robin Asquith, JP Morgan Asset Management:

But I guess it speaks to a lower growth environment over the medium term. Is that how you would interpret it?

Paul Bulcke:

Well I would say it is an expression of some realism, yes, and fairness too.

Question on;	**Achieving large margin improvements.**

Mitch Collett, Goldman Sachs:

I have got three totally unrelated questions if that is ok.

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

Can we take one and then go around and come back.

Mitch Collett, Goldman Sachs:

That's ok. I guess the first one is the most important one and that is lots of companies within the Food and Beverage industry have been able to achieve very large margin improvements through a combination of either trade budget optimisation or more aggressive cost cutting plans. I appreciate that you have given a new structural cost reduction ambition, the flow through of which is to be defined. Perhaps you could give some perspective on why some similar level of margin improvement is not achievable in a company like Nestlé. Is it because you are already so efficient, is it because of the scale and breadth of the company, is it because your categories are relatively heterogeneous, or is there perhaps something else I am missing?

Paul Bulcke:

I don't speak for other companies. It is linked with that thin line between long term and short term again. We have increased our investments for the longer term too. I feel this consistency of going forward. We can increase our bottom line 3, 4, 5 hundred basis points tomorrow, and how? Cut PFME marketing spend, R&D we can cut too and you go on but I wouldn't do that. I said there is this combination of short term intensity to deliver consistently and long term. That is our job here, to maintain that balance. We have many moving parts. We do have the big numbers, many small dimensions converging in the same direction adding up to what we are, stabilising the numbers.

But I wouldn't go to jumping in the sea and saying we are going to have 300 basis points next year and by doing so we can survive 3 or 4 years by cutting marketing spend, we have lot of brand momentum and all that. That is not responsible. We owe it to people a few years ago doing the same thing for us and having that rolling dimension going. So it is this top line bottom line increase every year, now have 400 basis points one year and then going down, no, that is not our model, that's not what we believe in. It is in that balanced way, and it is a thin line, a subtle balance but it is a good balance.

Actually today we are investing more, proportionally, for the future because it is intrinsic to our added-value business model, as I explained earlier, that is more research. We have a heavier agenda on innovation and renovation which is linked with a moving and evolving society. The Food and Beverage business is going through an inflection point of possibilities, science again and answers, and also needs. Call it a millennium syndrome, with that everyone understands what I am saying.

The love relationship with food is changing and worldwide. Not only in the developed world, definitely everywhere. And it's now that you have to engage there. It is now that you have to invest and re-formulate and be in the front line. So it is that balancing act. I think that is part of what we are as company, and I know that you like that but still you challenge it and that is the right thing to do. But it is this consistency. I like this consistency, a little bit boring maybe but I think it is good for the 340,000 people to know what drives us. We are much more intense than in the past in many areas, but consistent.

You are totally right to challenge us and say hey the other guys here and there, and we look at that too and we look at what is in it for us, what should we do and we are adapting to it? But we wouldn't jump in every pool.

Questions on;	**Generating cash** **Driving growth in Europe**

Jon Cox, Kepler Cheuvreux*:*

Thanks Paul and maybe I speak on behalf of everybody thanks very much for all the management for giving up a good 48 hours and I am sure that a lot of preparation went into it from all the IR team, so well done on that guys.

I will ask the buyback question if I can. You have said that you don't want to go back to triple A, you could go back to triple A the way you are generating cash can you comment on that? And I will just sneak in a quick one on Europe. Is Europe doing a Japan? Is that going to be the focus for you in terms of cost cutting in the next couple of years?

Paul Bulcke:

Well triple A…but we want to be gold standard in the industry. That is what we are. I think where it is relevant we keep it but is it an objective to be triple A? I saw that yesterday, how many companies still have the triple A? Not too many but we are gold standard in our industry and that is what we want to be.

Now Europe and Japan. You may remember when the crisis started there was quite a lot of noise about growth in Europe and forget it for a while, we go for Emerging markets. There was time when the 'Chinas' of this world were still double digit and everybody there. But we said from the start we are an AND company so we want to have growth also in the developed world. We never left growing in Europe. Some of the inspiration, and I hope you felt it a little bit through Kohzoh [Takaoka, CEO Nestlé Japan] when he spoke about Japan, I feel there is potential in Europe too on this. The different business models, the *Nescafé* ambassadors I definitely believe there are millions of small offices in Europe also. So there is communality.

The inspiration coming from Japan is saying that also in Europe we have to bring our creativity to another level. It is not pushing same buttons harder it is re-thinking certain dimensions. Coffee in Europe, should we go there into this ambassador idea, yes I think so. *KitKat* is one of these products that we have that has a strong but narrow personality, two fingers or four fingers that's it. He has been able to be creative within that narrow frame. Well that is not only conditioned for Japan. I do see a lot of communality for driving growth, defying gravity and a country like Japan should be an inspiration for the rest of the world. That is what it has been. That is what we believe in. It should not be these answers brought over here, part of it, but also re-think in Europe of what we can do to change the business models and drive growth. We have done quite well so far but I think there is more. Also the United States, definitely. The whole world.

I am using your question for more but the developing, emerging markets I truly believe there is going to be reverse innovation. China definitely and I think Wan Ling has shared that with you too. E-commerce. The whole digital dimension. So much is going to come from that inspiration that we are going to have there. That is why we engage in an accelerated way in China. But not only in China elsewhere too. There are quite a lot of E dimensions initiatives in emerging markets. Why? Because they don't have systems to defend. They don't have an oversized retail set up to defend. So it is like the cell phone. The cell phone was introduced and penetrated faster in these markets. That is why I believe in this reverse innovations in many areas.

The sixth floor exhibition (in Nestlé HQ) for example, we did not set that up for you only. That is permanently there to inspire our people from all angles and you see lots of products are coming from the emerging markets. That is something where we have a competitive advantage because we do have decision makers, we have development that is local. It does create some complexity, but it is good complexity. It is a good investment. And Kohzoh is a good symbol of that.

Questions on; Return on investment in R&D

Marta Bruska, Bank am Bellevue:

Some of the science you showed us from the R&D was very impressive and I have the impression that it converges more to the Pharma, especially the clinical trials and you say you want to invest more in that which is great. I was just wondering your pricing environment must be far more sensitive than that of the Pharma companies but the investment and the scope must be quite similar. So I have been wondering how do you assess the potential return on this R&D investment to develop the functional health food?

Paul Bulcke:

Well first of all we are not Pharma and I have to stress that although there is some smell. There is some smell because you go to functional relationships with health, there you go. But there is a fundamental big difference between Pharma and a company like ours. It is clear that somewhere you go to somewhere in the middle because we speak about inducing health through nutrients. It is clear when you speak about functional benefits in a society that is serious about these things, that you have to prove. We are still a Cartesian society, we have to prove. It is not a matter of belief because we have observed for three thousand years and so on. That is clinical trials. But still you have different levels of clinical trials that are fundamentally different. We still talk about GRAS which is a safe ingredient.

You spoke about our return on R&D, this is something that we are monitoring too; the pipelines, the output, how much of our business is innovation driven, that is linked with our R&D set up. So we are monitoring, call it KPIs, to monitor our R&D set up, area by area and to see how dense the pipelines are, how far out we are and it is clear that with Health Science the timelines are longer. It is actually not easy to do clinical trials or to prove, to build proof on things that say if you take this your whole life you're going to be healthier at seventy. You have to wait a long time. So it is clear.

But there is so much affinity with what we have done. If you think about our first product. And that was because it was obvious, you have to eat and cereals and milk, it just goes a little bit deeper. That's why I don't believe we are Pharma and that is why I believe our R&D spend, our investment is going to be still way from what Pharma has to do.

On pricing, well you say on pricing sensitivity. We are not Pharma. There is competitive intensity we have to be aware of that but all the investment we do in R&D is to differentiate, to justify a margin. It is through this differentiation, the further you get in differentiation the further you get out of commodity, the more honest the pricing you have. Overpricing is not part of our business model in the sense of hit and run. It should be honest to the value you deliver. You see also Pharma being challenged on that. Pharma is going a few years later through the same experiences as the Food and Beverage business, like private label and all that. I observe.

Question on; Intensity in searching for growth

Stuart Reeve, BlackRock:

Paul there is a sense in the business that where you managed to grow significantly above the market in Japan and Europe, there was an intensity required of the business because of the lack of growth in those markets which has been lacking in other parts of the business and is reflective of a lack of intensity in the search for growth across the business in general. How do you think about that or respond to that.

Paul Bulcke:

You speak about across the business or across the industry?

Stuart Reeve, BlackRock:

Across your business.

Paul Bulcke:

Just to understand your question. You say that in Europe we saw good and bad?

Stuart Reeve, BlackRock:

No because the market lacks growth, your organisation is then absolutely focussed on driving whatever growth they can find and therefore grows above the market. Whereas in other markets you have a tailwind of growth and you are not so hungry to outperform the market because you are happy to grow in line with the market or even a bit less because you have got some top line growth anyway.

Paul Bulcke:

Is that your perception? That doesn't look like our reality.

François-Xavier Roger:

The stats are somewhat different because indeed in Europe we are delivering growth above the market, in Japan as well we do. In the US we do as well. I mean if you look at the Food and Beverage market last year it declined for the first time ever, it declined in volume in the United States and we are growing in the US. It might have been different a few years back though. But last year we grew as well.

In emerging markets, you saw I presented it yesterday, we grew over the last three years we grew on average by about 8% in terms of CAGR and sales. So we are growing above market levels in most geographies. Ok, you can always find different markets where it doesn't happen that way.

Paul Bulcke:

I wouldn't like to leave a feeling that we are standing up here and saying growth whatever it takes. It is growth with return and sometimes you have to invest a lot to keep your position and growth comes afterwards. So you have to balance these things out. But I wouldn't go in the direction of growth is first. We are an AND company; growth with returns.

You said something in the sense that maybe in the intensity of resource you put to have some growth in a certain area where growth is not a given, that same amount of money there could have bigger impact somewhere else. That is a bit your question I think.

That is what portfolio management and return on resources is linked with. These things have to be spaced out. We do a re-allocation of things. For example during the year we re-allocate, we say look that is like going against a wall for the time being. Let's keep our position but there we have tail wind so we re-allocate resources during the year. So we do that. Actually the portfolio tool helps us to judge the sensitivity of certain shifts – arbitration if you will. You have to watch out that you don't over-do that because you compete in categories and you cannot always shift from one category to another because you have to keep your competitive positions too. And it is not only one year versus another because your positions, when you lose them, it costs double to regain them. But that is judgement. There is no formula for that and I hope we have the right brains to judge these things on the right levels because that is not all done here. That is done in the markets. That is why we have this relatively complex structure, because you can also say why is Nestlé all managed category by category worldwide, it is because of that, that feeling, that reacting meaningfully is also given locally. With some regional, global judgement. That's how it goes. Sometimes yes, you might be right, we have been pushing too hard versus the potential and the return would have been….but these are the judgement calls that then the portfolio tool takes up again as says well the last two years, that was lost. Fine, so what do we do now? Fix it or disengage.

Question on;	**Use of free cash flow**

Georgios Damtsas, Capital World Investors:

Given your solid free cash flow generation and your encouraging goals to improve it with increasing margins over time and lower working capital and about 4.5 % Capex to sales can you tell us about your plans or desires for the use of free cash flow in terms of dividends, small acquisitions and big acquisitions?

Paul Bulcke:

Our use of cash flow is known and we have several levels. You (FXR) have shared that. It is first of all play, short term and long term investment for the future and the right support for our brands. All that we have been discussing here. The other is making investments – Capex – you have seen also how we are sweating our assets and Magdi has been sharing that with you how we are going very sharply on this and I do believe that NCE is driving a lot of efficiency there too. Portfolio management again.

Then you have the giving back to the people who trust us in putting their money in our company and the stable way to do that is dividend. Then you have bolt-on acquisitions – to keep monitoring and see what makes sense. But we must watch out for goodwill. And you have seen how that has an impact.

Then you may have something like share buy-backs but wait, that's exceptional and we should not over do that. That's how I see it. The dividend policy that we have had has been quite substantial and you can do the calculation. But I think that we should privilege that and keep that going. Again consistency over time matters to us. I don't know if you want to add something.

François-Xavier Roger:

No I think we have been fairly clear on that and this is what we have applied. It's supporting the business, securing the dividend. The dividend has increased as you know over the last few decades, in absolute value in CHF which is quite a bold move. Then M&A, we discussed it, it is an opportunity, it is not an obligation. We need to be careful, especially in terms of returns. Then comes at the end share buyback which as Paul said is, obviously we are not going to be sitting on piles of cash which is not the case today. If it were the case we would return it, probably in terms of a share buyback, but we are far from that case today.

Question on;	Areas of business less focussed on NHW

Mitch Collett, Goldman Sachs:

The second question I wanted to ask was that I appreciate the attractiveness of a focus on health and wellness. Do you think that there is any sign at all that that focus is hampering the parts of your business that don't focus on that aspect? Confectionery perhaps**.** Are you doing enough to innovate there?

Paul Bulcke:

Confectionery. First of all the link with Nutrition, Health and Wellness. I don't see a contradiction there, to be very honest I don't. I do see a company going responsible about that category. That is linked with how can we deliver the same moment of enjoyment? Do you like chocolate?

Mitch Collett, Goldman Sachs:

Yes, I look like I do like chocolate, I do like chocolate.

Paul Bulcke:

My thing was a question.

Mitch Collett, Goldman Sachs:

The answer is yes.

Paul Bulcke:

That is what we are, a company that goes about Food and Beverages and the link with the quality of life of people, but in a responsible way. Confectionery is a part of that. There are technologies – you have seen – how we can deliver that - through aeration, and portionability and you go on.

Now should we drive it better? Yes. There is upside here. You just think about the phenomena of *KitKat*. We are using and abusing the example, but *KitKat is* one of these that we have in our company and it is a 75 year plus brand and it was in 7 or 8 markets basically. Now we are a global company. We have a brand that is unique, we have a brand with a product personality and so on. Now we have in it in +40 markets and that in a few years time… There is upside. It is for us to land these things.

You can say yes, but you are third globally. But that is mathematics. At the end of the day people buy brands. *KitKat* is in the top ten definitely and it is one of the fastest growing. So I may have more of that, potentially, and we work on that.

You know, I shared with you last time we met in this setting, that I have a little bit of frustration here and there, like *Cailler*. We are not going to blast ourselves on the world scene with *Cailler,* we are going to do it smart, on the tangent. But I do believe there is upside in creating these nice, enjoyable moments in people's lives. That is also part of our business model. And it doesn't take away the fact that we see it as part of Nutrition, Health and Wellness.

Question on; Category management

Céline Pannuti, JP Morgan:

A clarification. In a few presentations there were discussions about ‘above market’ where some of the zone managed businesses seemed to be given a bit more of their independence to be ‘above market’. Is this a trend and does it mean that those categories are better managed on a stand-alone basis? More successfully. And does that mean that your structure is probably ill-adapted to what you see right now in the market?

Paul Bulcke:

This is the famous question between globally managed and locally managed, this pendulum always. I have mentioned that we are fundamentally a decentralized structure but that doesn’t mean that we should be capillar in everything we do. *KitKat* – again *KitKat* – but it is a good example of that. We didn’t have the dynamics of *KitKat*. Why? Because localness prevailed there whereas global brand offering should be bought into in the markets. We don’t have One-size-fits-all in Nestlé so we have different business models. Globally, regionally and locally. We have globally managed brands, we have locally managed brands. It is for us to maintain that balance again. Yet again the portfolio tool helps to judge and to have judgement on these things.

I do believe though that if we go to deeper layers of research, of innovation, of levelling that up, of scaling that up to more markets. We call it the big three – bigger, bolder, better - innovation. It is definitely something that should drive in a world that is increasingly inter-connected. We still have 170 blends of *Nescafé* now you say come on – coffee it should be one. No, watch out. It is the localness, the 60/40 plus that drives that.

Again that thin line between over complexity and over localness. Localness should not be the alibi of not doing the right thing and taking up what works globally. That is again the balance we have to work with. That is really the challenge.

We have structured certain businesses globally - Water – you saw Marco, he spoke about Water. Yet again in Waters we have global brand, *Pure Life*, we have global brands, international brands, *Perrier, S. Pellegrino* and we have local brands. That combination is again a winning combination because people buy local. People in the third industrial revolution, people are still physical. They need to eat. They touch brands. Yet it should not all be locally invented. More and more it is going to be global.

Nestlé Health Science definitely is more global. Infant Formula is more global. Why? Because you have one driver of innovation, of understanding and research. Purina actually is regional, the brand structure is regional, but the platforms are global. That is where we have then another model where we co-ordinate the thing regionally. There we have a region that is quite specific, we have Latin America linked with St Louis. We have now linked AOA with the good drive of PetCare in Europe.

There is no black and white answer to all these things. It is judgement driving it, learning, adapting, adjusting and there this fine balance again of local and global is what works but it tilts towards more global inspiration and local execution. NBE is also proof of that.

Question on; Competition from local companies

Toby McCullagh, Macquarie:

I think there was a slide earlier on that showed that local companies have gained about 200 basis points share in your categories over the last couple of years. Now if you are positioning yourself as the local multinational, and we just had a lot more chat about the degree of decentralization why aren't you gaining that share or at least more of that share?

Paul Bulcke:

Good question. That is how I challenge my structure too. But local competition has – and that is why we have to really maintain agility, you have part of the millennial syndrome that is linked with small and local. Although you are the local multinational, you are still global and multinational. That is part of the explanation. That is why also we must also watch out that we don't fall in the trap to say oh we have to buy all small local brands. I think we have to build these emotions into our global brands because at the end of the day people don't buy brands saying oh that is a global brand if we don't position it as such. We should do a better job there.

I think also that the agility to adapt to localness in a fast moving, especially emerging market is higher when you are a local start-up or a local player. We have a little more framework and we have to make that more agile too. There is a little bit of that agility that goes in their favour but I don't see that we should lack that. I think we should build it into our model too. But totally right.

We saw Vietnam this morning. Vietnam – I was there. You go on the street and you try to survive the motorbikes. And you see the bill boards, and you see a product, [and you ask] what is that? Oh yes, that is a local competitor. And I say but we have that in another country, we could do the same. Oh yes we do, but in another country. You see. If that is a high potential we then organise to bring it in but that is because you saw it – and somebody else is doing it already. It is because we don't have it in our portfolio there. We don't have the factory. That is where this dis-link in time is. We have to shorten the time of reaction. Or we say we disengage. We don't go there because that is not possible.

It is hard to find a category where we cannot have an answer. But it is hard to find a country will all categories and all products and production capabilities too. So that is somewhere where I feel we have upsides, to go faster after these thing.

François-Xavier Roger:

I think also probably it shows one thing which is the fact that we are not looking for market share only, I think we need to strike the right balance between top-line growth, market share, profitability as well. By choice from time to time we decide not to go in some markets and I shared the example earlier. For example Water in some categories in the United States we decided not to go against labelled brands because there were no returns. In emerging markets from time to time you have local players who are going extremely low in terms of price point. We are in the business of affordability but there is a certain part of the market where we don't want to go too low either because there is no return. So at the end of the day, even if we lose market share in a certain number of instances while preserving our market or profitability that is the right thing to do.

Question on; Digit Expert on Executive Committee

Heidi Rauber, Fidelity International:

We saw a very interesting presentation about your digital and on-line efforts this morning and if I just think about what some other European FMCG companies have done, some have elevated the digital expert to the executive level. I was just curious about how you think about that question. Whether it would make sense to have that type of person on your executive committee or whether it is not sufficiently strategic or just your overall thoughts.

Paul Bulcke:

Everybody on the executive board is digital. It is like having someone on the executive board who is responsible for growth. I don't like that. Or someone who is responsible for innovation.

We as a collegial group of people there we are quite hands on. We talk about digital every time we sit together. Digital, and the people you saw, are administratively reporting into Patrice Bula but basically everybody is involved here. Even our communication guys are linked with digital and you see Wan Ling is definitely linked with digital, in the market. I don't want to have a bottle neck there on something that is one of our global priorities. You see Chris Johnson definitely is linked with digital – he is the hardware digital guy.

It is an option. What you are doing with that is saying we take it seriously. It is true. Well then I am the digital guy here. I have to drive this. This is the highest priority for this company. We have been accelerating this big time. We should maybe talk more about all that is happening but I would rather have it showing through our business performance and that will. I am quite upbeat about what is happening all over the company.

Question on; Nestlé Health Science Progress on Objectives

Alan Lander, Walter Scott and Partners;

Paul, I think it was in 2011 when Nestlé Health Science was created that you set an objective of within a decade being the undisputed leader of the use of nutrition to treat and prevent chronic disease. We are sort of at the half-way stage here. Do you still think that is a realistic target? Have you been pleasantly surprised or disappointed with the progress you have made versus that roadmap.

Paul Bulcke:

No, we have gone a long way and definitely on nutrients we want to be the leader in that field. Yes. And we still have that ambition. And we have driven the businesses that we had and there are basically consumer dimensions. We have engaged in the right platforms. We have had a lot of learning curves, that is true. We have brought in talent. So the building up has moved quite a bit.

We are also in that field being taken differently than at that time because I remember when we started – ok what is this? So we can engage with the leaders and the thinking and the knowledge in the world. So authority of seriousness, of which we go about this, is there. The leadership of the initiatives and the platforms that we are driving are also. So I am confident that we are on the right track.

With the right pace? Ten years, well yes, it is definitely already five years. We have five years to go, so let's talk every year about how it moves. I am upbeat.

Question on; On-line and Off-line Market Shares

Mitch Collett, Goldman Sachs:

I don't think my last question is an appropriate last question but I will do it anyway. I wanted to ask in the e-com panel and also in the AOA panel, you said that you think that your shares on-line are higher than off-line in the Americas and in Europe. I notice that statement wasn't made in the AOA presentation. I wondered if it was also true there. I accept that it is very difficult to measure what your shares are on-line and off. I wondered what the best way of doing is that you have found and where you think you are doing best.

Paul Bulcke:

I didn't get the first part of the question.

Mitch Collett, Goldman Sachs:

Your share on-line versus your share off-line. In the EMENA presentation and the Americas presentation the statement was made that you think your shares are higher on-line than off, in general, and I noticed that statement wasn't made in the AOA presentation, which is arguably where it is most important. I wondered if it was still true. Also I wanted to know how you measure because it is obviously very difficult to know what shares are on line.

Paul Bulcke:

I rather feel, depending on category by category again, we were rather catching up because our share on-line was under our share off-line, that we have caught up quite heavily in the last two years and may have passed in certain categories. But I believe that our upside potential on-line is still in catch up mode versus the best players in each. Cherry picking.

In AOA, again you go country by country and I do see the upside in general in China, but then you go to certain categories. In Infant Formula I feel there is definitely an upside although a big portion of Infant Formula is going over E some other people may have started earlier. But we are catching up very fast there and I want to be leading there too.

In Purina, a higher proportion of PetCare in China is going on-line and that is higher than off-line. Category by Category, it is distinctive and different. Again what we are engaging with, and I think Wan Ling shared with you, is this 150 years – Alibaba partnership that is coming up. Proportionally that should go beyond our off-line. Why? Because we believe that on-line is going to be proportionally much important, in general, as driver factor of innovation etc. So that's where we want to be.

Certain categories are more open and have a normal affinity to internet and e-commerce than others.

Then you go to Africa. Africa and E-commerce is an intriguing relationship. I mentioned that yesterday on the table with a few of you, if I were younger I would start e-commerce in Africa. We don't talk too much about Africa. We could maybe cover that next time a little bit. Africa is for us one of these silent growth drivers where I truly believe too – E-commerce and products specifically for that region are going to bring us quite a lot of growth potential. This is the continent where we have been growing very steadily. Small still proportionately but the continent per se has been growing. There is one of our highest priorities.

Also if we take two steps back now, no longer just Nestlé. This is one of those regions in the world where if you think about agriculture and the needs for agriculture produce. That is going to have an impact on society. I want to be there. We have been there for more than 100 years. We have 35 factories in that region. I have a head start and I don't want to lose it. That not-losing head start is going to be linked to e-commerce definitely also. So upside.

Question on; Local or Global Innovations

Eileen Khoo, Morgan Stanley:

It was just about innovations really. I am just trying to square your comments on bigger, more global innovations. I mean is it more important to have big global innovations introduced from the centre. Or innovations that are started at the end market at the local level. It sounded from the AOA presentation that the latter perhaps was more important.

Paul Bulcke:

It's a combination and that is why I said small and big. But I do see so much potential of having good ideas being rolled out faster. You see we have to speak about failures. We failed with LC1. We still have it though – this probiotic yogurt. Why? Well we had, five, six years in front of anybody else, this probiotic argument. We had it. But we were Nestlé so you go with that innovation and you go knocking on doors to country A, country B. Then you see these timelines, everybody has long timelines. Oh yes, very interesting but I have a priority A or priority B. These are innovations that are game changing innovations that we as a company should believe in. Then to see how we organise it to be broad and roll it out. We are monitoring it now innovations and good ideas, how many countries are rolling it out and in what time frame. We are monitoring that now much more than in the past.

Then you have examples. Dolce Gusto. Dolce Gusto is a classic example of where we have forced markets to roll it out in Europe. It was Europe first. That was the zone head saying we are going to do this. And we are going to do this in two to three years. Rolling out in so many markets – in A..B and the timeline is…It was done, it was driven centrally. It is locally managed but driven and inspired globally. The advantage of these things is you don't' have the markets saying yes but. They want to tweak things always. The machine yes, but my machine should be three buttons because three is a lucky number. It doesn't work.

We have to have more but that should not overrule the fact that we allow people to have local innovation too. That combination is again a call off.

The 60/40 plus for example, this whole way about going about Nutrition, Health and Wellness and preference and taste, is something that drives quite a lot of localness. But is should be consumer driven localness and not ego driven localness. That is judgement again and that is where the vital function of zone heads in non-globally managed businesses is so critical, to judge that and see what call has to be made. I believe that there is going to be more of that global inspiration but still local execution. There is much more buy-in of markets, there is much less defensive attitude – to say well not invented here. Why? Because we have so many good examples of where being part of a global resourced idea is so more forceful and drives so much nicer returns. So there is an easier buy-in.

We do SKU management too because you can imagine that with localness you can a hyperventilation of SKUs. So we do quite a stringent SKU management. We went from over 100,000 to 70 something thousand. That's central. It is a little bit with forceps sometimes because always somewhere the mother or the father of an SKU and it is always hard, emotional. But there we have a lot of buy-in because you free up capacity, this is Capex, you have a much easier time managing your stocks, your provisions, you don't have to sit on your knees to have all your SKUs on the shelves. And so on, so it just makes sense. These more global dimensions. Yes, that makes sense.

END OF TRANSCRIPT