Margin improvement / portfolio management / capital structure

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Disclaimer

This presentation contains forward looking statements which reflect management's current views and estimates. The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments.

Agenda

- Margin improvement
- Portfolio management
- Capital structure
- Working capital / ROIC / disclosure

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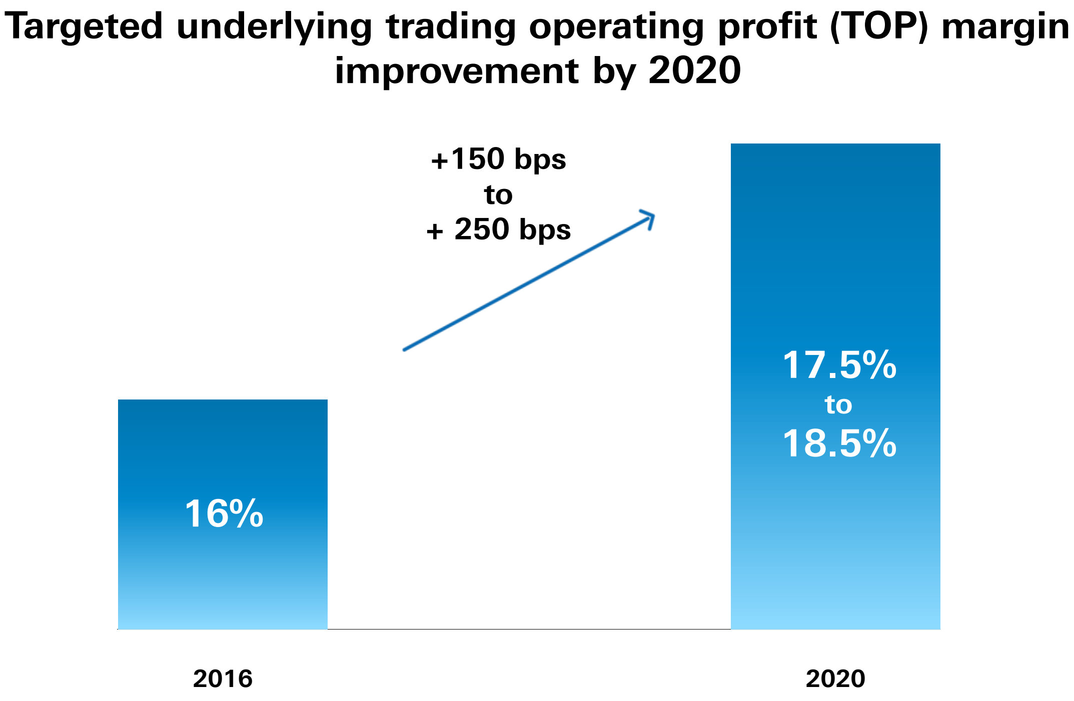
Margin improvement / bottom line focus at a time of lower organic growth



Main focus of cost reduction: structural costs

Structural costs: circa 20% of sales

1. Manufacturing
2. Procurement
3. General & Administrative (G&A)

Manufacturing

Objective	Results 2016/2017	Going forward
"Sweat" our assets: • Reduce conversion costs • Optimize our industrial footprint and factories • Increase capacity utilization	• Full factory footprint review concluded • 11 factories closed or sold, 6 further closures announced	• Further simplification of manufacturing footprint globally • Reduction of conversion costs in key categories (e.g. U.S. ice cream)

Procurement

Objective

- Increase global buying from 40% to 60% of total
- Optimize purchasing back-office

Results 2016/2017

- Global hubs in Switzerland, Malaysia and Panama fully operational
- Incremental savings of CHF 160 million in 2017
- CHF 100 million reduction in working capital

Going forward

- CHF 500-600 m incremental savings by 2020 compared to 2016

G&A: Nestlé Business Excellence

Objective	Results 2016/2017	Going forward
Nestlé Business Excellence FUEL FOR GROWTH SIMPLIFY · STANDARDIZE · SHARE	• Shared services penetration to 17% (vs. 13% in 2015)	• Increase shared services penetration to 50%
	• Processes and technologies redesigned for four out of six end-to-end flows	• Complete redesign of new processes and technologies for all six end-to-end flows
	• E-invoices up 10% to 50%	• E-invoices increase >70%
	• Online purchasing tool coverage of CHF 1.3 billion with 50% automated orders	• Online purchasing tool spend coverage increase >10x to CHF 15 billion

G&A: Optimize real estate, simplify structures, pension management

Objective	Results 2016/2017	Going forward
• Optimize real estate assets	• Office consolidation, most significantly of Nestlé U.S. HQ and Group HQ	• Consolidate Vevey area sites • Consolidate 7 Paris sites to 1
• Simplify local structures to reduce costs	• De-layering, e.g. in Mexico and Brazil, Skin Health restructured	• Further simplify structures in the markets • Leverage above-market centers of competence
• Reduce pension management costs	• Exited internal pension asset management, saving CHF 25 million in 2017	• 2018 incremental savings of CHF 120 million over 2016

Significant value drivers to support margin improvement

In CHF billion

Initiatives	Savings 2020*
1. Manufacturing	0.6 – 0.8
2. Procurement	0.5 – 0.6
3. G&A	0.9 – 1.1
Permanent savings	**2.0 – 2.5**

* Savings versus 2016

Restructuring costs

Around CHF 2.5 billion estimated restructuring costs from 2016 to 2020

Governance on savings program

- Aligned with short-term incentives
- Full board and management commitment
- Well-defined ownership of projects
- Full tracking and monitoring
- Permanent search for new initiatives

Target: from savings to margin

- Underlying trading operating profit margin (TOP) to increase by 150-250 bps* from 2016 to 2020

  - NCE savings to continue, but largely re-invested for growth

  - Structural cost savings to be the main driver of margin development

* Base: 2016 underlying TOP of 16%

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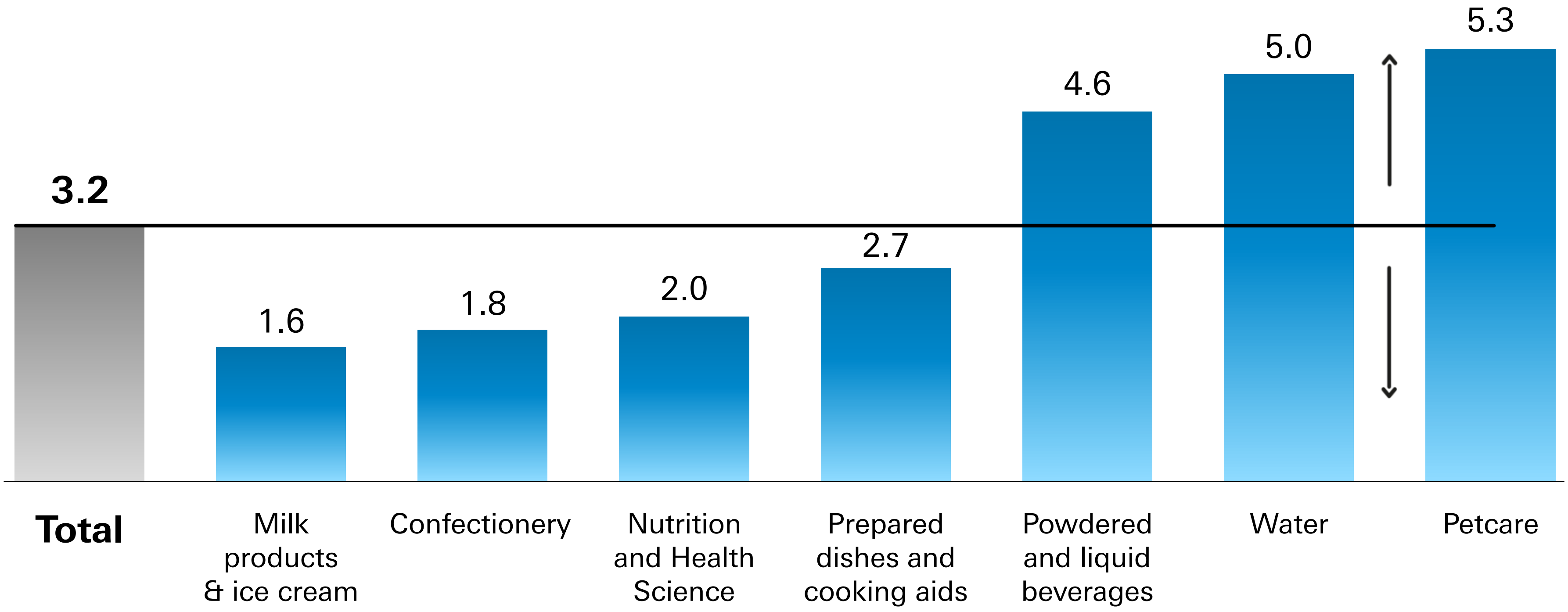
Strong portfolio with profitable growth platforms and leading positions

Scope: Group excluding US confectionery and divested businesses

Source: ATLAS

Very consistent growth within the portfolio

FY 2016 organic growth (OG) %



Two dimensions to portfolio management

Internal

- Allocate resources
  - CAPEX
  - Marketing spend
  - HR
  - R&D
  - Technology

External

- Acquire
- Combine
- Dispose
- Access to innovation

With flexibility to apply different strategies

FY 2016

Category	Sales (CHF million)	△ Marketing spend vs. LY (CHF million)	Results: OG	Results: Market over/under performance	Results: △ Margin vs. LY
Harvest	6’340	-127	1.5%	-1.0%	+540 bps

Source: Nestlé ATLAS

Acquire: organic and natural petcare

Business performance:

- Sizable market and strong growth rates (2014-16):
    - Market size: CHF 8.6 billion
    - CAGR: 15%
- Complementary to existing portfolio
- Attractive channel mix

Combine: ice cream JV with Froneri

FRONERI

- Successful go-live in Q4 2016
- Strong business performance in H1 2017:
  - Double-digit growth
  - Profit ahead of budget
  - Market share +200 bps

Review: U.S. confectionery

Review of strategic options for U.S. confectionery business:

- Specific decision related only to U.S. confectionery
  - Strong local brands
  - But limited ability to win
- Better use of resources on other leading categories

Portfolio management to access external innovation

Universities and public research

- EPFL – École Polytechnique Fédérale de Lausanne
- University of Cambridge
- Technische Universität München (TUM)
- Instituto Nacional de Medicina Genómica México
- Imperial College London
- Agency for Science, Technology and Research Singapore
- ETH – Eidgenössische Technische Hochschule Zürich / Swiss Federal Institute of Technology Zurich
- CIRAIG
- University of Southampton
- EpiGen Global Research Consortium
- 東京大学 The University of Tokyo
- TIFN Food & Nutrition
- eit – European Institute of Innovation & Technology

Start-ups and biotechs

- chromocell – Accelerating Science
- inventages
- GLYCOM
- Sherbrooke Capital – Healthy, Active and Sustainable Living
- armor protéines – Share more than milk
- QualySense
- Flagship Ventures
- VI

Innovation partnerships

- DSM
- Roquette – Offering the best of nature™
- Bühler
- Givaudan
- BASF – We create chemistry
- symrise
- Neuhaus Neotec
- Cargill
- Firmenich
- 3M
- DuPont
- Kerry
- FMC Environmental Solutions
- novozymes – Rethink Tomorrow
- Tate & Lyle
- Ingredion

Complement internal competencies with external innovations, technologies and science

Innovation fund: direct and indirect investment

- Investment focus on
  - New food and beverage business models
  - Nutrition science and food technology
  - Digital technologies
- Investment channels
  - Direct investment in innovative companies (e.g. Freshly)
  - Investment alongside focused external venture capital funds

Minority Stake: Freshly

High growth, direct-to-consumer (DTC), healthy, prepared meals

- Access to new business model:
  - DTC
  - Technology-enabled
  - Real-time consumer feedback
- Minority stake with board seat

- Access to food and manufacturing knowledge:
  - R&D
  - Nutrition
  - Sourcing
- Expand and rapidly scale reach

Acquisition: Sweet Earth

Access to US plant-based food segment market worth USD 5 billion

- Manufacturer of plant-based and vegan foods
  - Growth in excess of 40% in 2017
- Complementary to Nestlé frozen portfolio
  - Millennial trends
  - Modern health for all meal occasions
- Strong consumer feedback on taste, quality, nutritional benefits and convenience

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Factors taken into consideration

- Cost of debt
- Access to capital markets
- Flexibility for external growth
- Dividend practice
- Cash flow generation
  - Sales growth
  - Margin improvement
  - Working capital
- EPS growth expectations / competitive shareholder returns

Outcome of capital structure review

- Leverage our balance sheet
- Keep flexibility for external growth
- Comfortable with A rating

➔ **Up to CHF 20 bn approved for share buyback**

➔ **Share buyback to be spread evenly over three years until June 2020**

➔ **Buyback will be adapted in event of large M&A**

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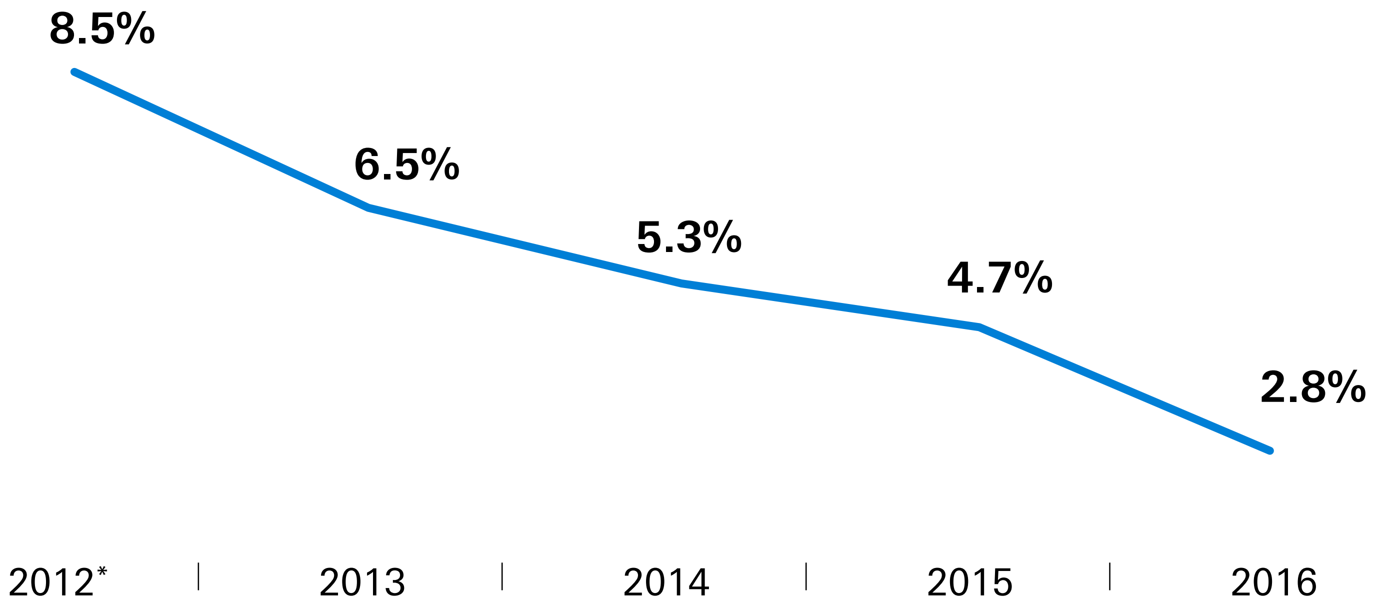
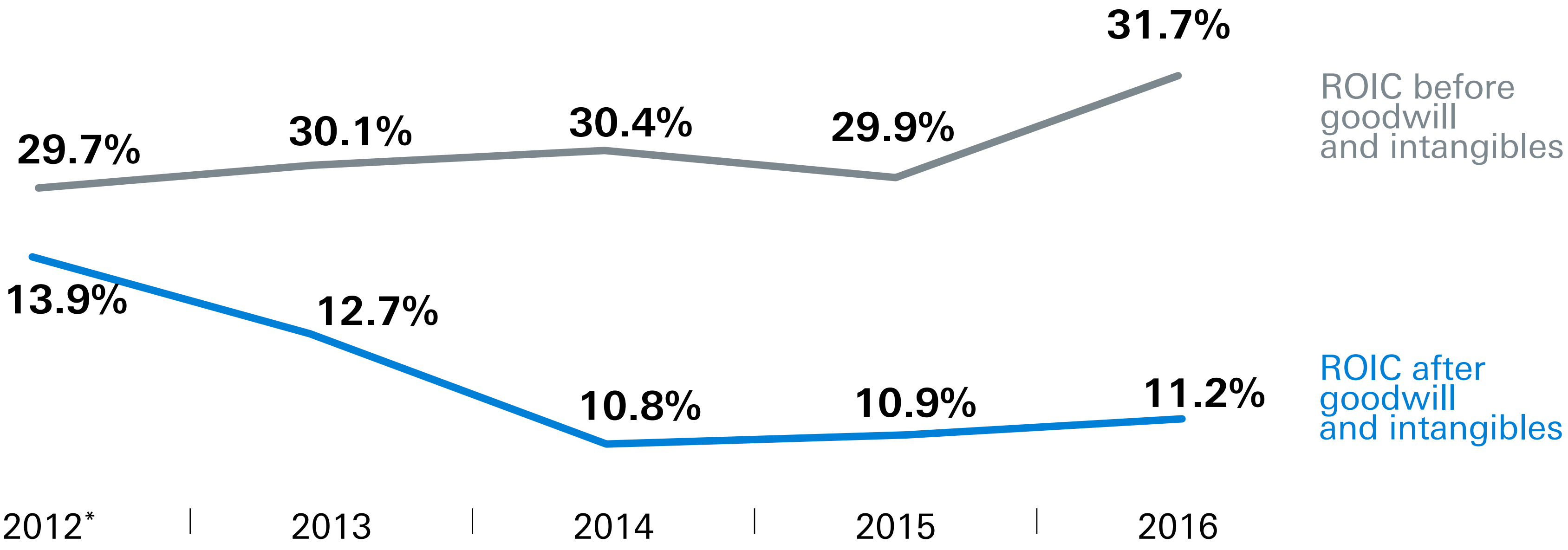
Further working capital improvement identified

Five quarter average working capital as a % of sales



*: Sales restated

ROIC development



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Amendments to external reporting as of 2018

- Underlying TOP margin target provided (i.e. before restructuring costs)
  - Alignment between underlying EPS and underlying TOP
  - Retain full TOP transparency

Summary

Improve Margins and Returns	• CHF 2.0-2.5 billion incremental structural cost savings by 2020 over 2016 • Targeting 150 to 250 bps of margin improvement by 2020 • Supporting EPS and ROIC growth
Cash Flow	• Further working capital reduction
Capital Structure	• Leverage our balance sheet • Up to CHF 20 billion share buyback, spread evenly until June 2020
Portfolio Management	• Clear action and execution plans to drive growth and returns • Open innovation and direct/indirect investment in fast growing assets
Disclosure	• Move to underlying TOP with direct reconciliation to underlying EPS

Thank you!