Press release

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Nestlé
Good Food, Good Life

First Half 2014: 4.7% organic growth in a volatile trading environment
CHF 8 billion share buy-back programme

- Sales of CHF 43 billion, 4.7% organic growth, 2.9% real internal growth
- Strong Swiss Franc impacts sales by -8.8%
- Trading operating profit 15.0% (-10 basis points); +30 basis points in constant currencies
- Underlying earnings per share up 3.6% in constant currencies
- CHF 8 billion share buy-back announced
- 2014 outlook confirmed: organic growth around 5% and improvements in margins, underlying earnings per share in constant currencies and capital efficiency

Paul Bulcke, Nestlé CEO: "We delivered solid, broad-based organic growth, driven by real internal growth and pricing in what is still a very volatile trading environment. We continued to drive the growth momentum with innovation, increased support behind our brands, and a focus on efficiencies. The creation of Nestlé Skin Health with the Galderma business expanded our nutrition, health and wellness strategy, reinforcing our long-term strategic ambition to improve people's lives through science-driven innovation. We plan to buy back CHF 8 billion shares in a programme that will start this year and continue into 2015, providing additional competitive returns for our shareholders. The performance in the first half allows us to confirm our outlook for the full year: organic growth around 5% and improvements in margins, underlying earnings per share in constant currencies and capital efficiency."

First Half 2014 Group Results

In the first half the Group delivered organic growth of 4.7%, composed of 2.9% real internal growth and 1.8% pricing. Total sales were CHF 43 billion. The strong Swiss Franc continued to have a substantial negative impact (-8.8%) and after divestitures, net of acquisitions (-0.7%), reported total sales were down by 4.8%.

- The Group's **trading operating profit** was CHF 6.4 billion. The reported trading operating profit margin was 15.0% (-10 basis points), +30 basis points in constant currencies.

- The **cost of goods sold** increased by 20 basis points, reflecting input cost pressures, especially in dairy.

- **Total marketing and administrative costs** decreased by 30 basis points, reflecting efficiencies. At the same time we continued to strengthen the support for our brands, increasing **consumer facing marketing spend** in constant currencies.

- **Net profit** was down to CHF 4.6 billion, reported **earnings per share** were CHF 1.45, both impacted by the strong Swiss Franc. **Underlying earnings per share in constant currencies** were up 3.6%.

- **Operating cash flow** was CHF 4.3 billion. Working capital remains an area of focus and we have continued to lower it as a percentage of sales.

Business review

- The **organic growth** of the Nestlé Group was broad-based; 4.9% in the Americas, 1.4% in Europe, and 7.5% in Asia, Oceania and Africa. Globally, our businesses in developed markets grew 0.6%, whilst emerging markets grew 9.7%.

- The **real internal growth** was 2.4% in the Americas, 2.3% in Europe and 4.2% in Asia, Oceania and Africa.

- The newly established Nestlé Skin Health, based on our Galderma business, reinforces our long-term strategic ambition to be the leading nutrition, health and wellness company. This investment complements other value-added growth platforms in our portfolio including Nestlé Health Science, created three years ago to drive innovation in the area of personalised nutrition. Nestlé Skin Health has been further strengthened with the acquisition of the full rights to commercialise several key aesthetic dermatology products in the US and Canada.

Zone Americas

Sales of CHF 12.5 billion, 4.9% organic growth, 1.7% real internal growth; 18.0% trading operating profit margin, +10 basis points

- The Zone delivered real internal growth in North America where the trading environment remained subdued. The double-digit growth in Latin America was helped by pricing, reflecting inflationary pressures.

- In **North America** the frozen and ice cream categories continued to be challenged. *Stouffers Multi-Serve Meals* delivered growth for frozen and we continued to innovate with new products such as *Lean Cuisine Stuffed Pretzels*. In pizza, the new *Thin and Crispy* line was a growth driver for our *California Pizza Kitchen* brand. In ice cream, super-premium had a strong first half, helped by *Gelato*. The liquid segment with new flavours drove *Coffee-mate'*s positive performance. In petcare, line extensions and new product launches, including *Beyond* dog food and *Lightweight 24/7* and *Glade* cat litters, helped drive growth.

- Most markets in **Latin America** accelerated in the first half. Brazil delivered strong organic growth, double-digit in most categories, helped by pricing. There were good performances from *Ninho* in dairy, *Nescau* in cocoa and malt beverages and from ice cream. *KitKat* was a highlight for confectionery. In Mexico *Nescafé 3-in-1* and *Nescafé Dolce Gusto* led the growth in coffee while in dairy growth was supported by *Carnation* which expanded market share. Petcare continued its strong momentum with *Dog Chow*, *Pro Plan* and the launch of *Revena* in the pet specialty segment in Brazil.

- In spite of a substantial increase in consumer facing marketing spend the **trading operating profit margin** rose due to lower restructuring and other expenses.

Zone Europe

Sales of CHF 7.3 billion, 0.6% organic growth, 2.0% real internal growth; 14.8% trading operating profit margin, -10 basis points

- The Zone delivered positive organic growth, driven by strong volume growth in a deflationary environment where consumer confidence remains fragile.

- Innovation and premiumisation continued to underpin growth. *Nescafé Dolce Gusto* performed well across the Zone and gained market share. There was good growth from *Wagner* and *Buitoni* in frozen pizza and *Nescafé Gold* in soluble coffee. Confectionery was helped by the late Easter and culinary saw strong performances in sauces, soup, *Maggi Papyrus* cooking papers and in snacking, noodles. Petcare's continued growth was driven by *Felix* single serve, *Purina ONE* and cat snacks.

- In **Western Europe**, the Iberian region showed signs of recovery delivering positive growth. There were good performances in Switzerland, the Netherlands and Austria and improvements in France, Italy and Germany.

- **Central and Eastern Europe** picked up with real internal growth accelerating in Poland and the Czech Republic. Russia continued to deliver good growth, particularly in ice cream and with *Nescafé Dolce Gusto* and *KitKat*. Ukraine proved resilient delivering growth despite the political turmoil after a difficult start to the year.

- The **trading operating profit margin** fell slightly due to impairments which were not completely offset by decreases in restructuring and other costs.

Zone Asia, Oceania and Africa

Sales of CHF 8.9 billion, 4.7% organic growth, 1.9% real internal growth; 18.9% trading operating profit margin, -20 basis points

- The Zone delivered growth in both developed and emerging markets. Good performances in parts of the Zone were counterbalanced by the effects of deflation and of unrest elsewhere. Real internal growth was impacted by increased pricing taken to compensate for the weakness of some currencies.

- The premium businesses continued to be a growth driver for the Zone. The continuing rollout of *Nescafé Dolce Gusto* delivered double-digit growth. Innovation also contributed with new launches including *Yinlu Walnut Milk* in China and new portioned packs of *Milo* in Australia. There was solid growth for *Milo* in cocoa and malt beverages, *Maggi* in ambient culinary and for creamers.

- In the **emerging markets** the Philippines, Turkey, Pakistan and many markets in Africa all grew strongly. China was challenged but we see fundamentals improving. South Asia recovered, its growth reinforced with innovations like *Nestlé Masala Buttermilk* and *Nestlé Sweet Lassi* beverages launched in India. *Nesquik Optifast* had a good start in Turkey and the Middle East.

- The **developed markets** in the Zone delivered positive growth with Japan having a strong start to the year. There were successful rollouts of low fat *Carnation Cooking Cream* and *Felix* cat food in Oceania.

- The **trading operating profit margin** was impacted by increasing costs, mainly dairy, which were not fully offset by pricing and efficiencies.

Nestlé Waters

Sales of CHF 3.7 billion, 6.1% organic growth, 7.3% real internal growth; 10.4% trading operating profit margin, +80 basis points

- Nestlé Waters delivered broad-based profitable growth across geographies and brands with acceleration in the emerging markets. The bottled water category continued to show solid growth overall. *Nestlé Pure Life* continued to drive our growth, particularly in **emerging markets** with China, Egypt, Turkey and Pakistan the highlights. In the **developed markets** our regional brands delivered steady growth, notably *Levissima* in Italy, *Poland Spring* and *Deer Park* in the United States, *Buxton* in the United Kingdom and *Hépar* in France. The premium brands *Perrier* and *S.Pellegrino* continued their good momentum and grew double-digit in several developed markets.

- The **trading operating profit margin** improvement was driven by solid volume growth and significant cost reductions across the value chain.

Nestlé Nutrition

Sales of CHF 4.7 billion, 7.9% organic growth, 3.8% real internal growth; 21.1% trading operating profit margin, +110 basis points

- Nestlé Nutrition's growth accelerated, driven by double-digit growth in infant formula and infant cereals. The growth in the emerging markets outpaced the market in many cases. *NAN* delivered strong double-digit growth, as did the super premium brands *S26* and *Illuma.* In the United States infant cereals gained market share. Meals and drinks were challenged due to high competitive activity in the US, and softer economic conditions in Mexico and Europe.

- The improvement of the **trading operating profit margin** reflected the effects of divestments and the integration of new businesses.

Other activities

Sales of CHF 5.9 billion, 5.9% organic growth, 4.7% real internal growth; 18.4% trading operating profit margin, -80 basis points

- **Nestlé Professional** increased its growth momentum during the first half despite challenges in North America and in Western Europe where deflationary conditions and a difficult out-of-home environment persisted. Russia drove growth in Eastern Europe and we achieved double-digit growth in emerging markets. The beverage business growth was driven by beverage solutions and overall good momentum in Latin America and Zone Asia, Oceania and Africa. For the food business, desserts solutions was the key driver and overall growth was particularly strong in Zone Asia, Oceania and Africa.

- The extension of the Grand Cru coffee range, innovative services and new machines ensured that demand for Nespresso in established markets remained solid despite significantly increased competition. Geographic expansion was accelerated with 14 new boutiques opened across the world. In North America there has been a good response to the launch of the *VertuoLine* system delivering the long-cup coffees preferred by US consumers.

- Nestlé Health Science performed well, driven by innovation and the rollouts into additional markets of *Peptamen*, *Alfamino* and Vitaflo's *Carbzero* and *Betaquik*. *Boost* in the US, *Meritene* in Europe and *Nutren* in Brazil also achieved solid growth. We launched our first production line in Japan, designed to meet the nutritional needs of the ageing population there.

- The trading operating profit declined due to substantial marketing support, development investments and the impact of currencies.

CHF 8 billion share buy-back programme

We plan to launch a new share buy-back programme of CHF 8 billion that will start this year and continue into 2015. The buy-back is subject to market conditions and strategic opportunities. This is in line with the Group's policy to maintain our current financial rating while at the same time providing a competitive return to shareholders with a sustainable dividend policy in line with underlying earnings growth.

Outlook

Full year outlook confirmed: organic growth around 5% and improvements in margins, underlying earnings per share in constant currencies and capital efficiency.

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Annex

Half-year sales and Trading operating profit margins overview

	Jan.-June 2014 Sales in CHF millions	Jan.-June 2014 Organic Growth (%)	Trading operating profit margins	
			Jan.-June 2014 (%)	Change vs Jan.-June 2013 *(*)*
By operating segment				
• Zone Americas	12'465	+4.9	18.0	+10 bps
• Zone Europe	7'296	+0.6	14.8	-10 bps
• Zone Asia, Oceania, Africa	8'880	+4.7	18.9	-20 bps
Nestlé Waters	3'669	+6.1	10.4	+80 bps
Nestlé Nutrition	4'692	+7.9	21.1	+110 bps
Other	5'979	+5.9	18.4	-80 bps
Total Group	42'981	+4.7	15.0	-10 bps
By product				
Powdered and liquid beverages	9'835	+5.3	23.8	-20 bps
Water	3'410	+5.8	11.2	+50 bps
Milk products and ice cream	8'085	+5.7	16.0	+10 bps
Nutrition & HealthCare	5'659	+7.6	19.9	+130 bps
Prepared dishes and cooking aids	6'394	+0.0	12.8	-70 bps
Confectionery	4'184	+3.4	10.6	-210 bps
Petcare	5'414	+5.3	19.9	+90 bps
Total Group	42'981	+4.7	15.0	-10 bps

(*) 2013 figures have been restated following the transfer of responsibility for Nestea RTD businesses in the geographic Zones to Nestlé Waters effective as from 1st January 2014.