Press release

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Nestlé
Good Food, Good Life

Half-Year 2015: Organic growth of 4.5%, full-year outlook confirmed

- Sales of CHF 42.8 billion, 4.5% organic growth, 1.7% real internal growth
- Trading operating profit margin 15.0%, up 20 basis points in constant currencies
- Underlying earnings per share up 7.3% in constant currencies
- 2015 outlook: we aim to achieve organic growth of around 5% with improvements in margins and underlying earnings per share in constant currencies, and capital efficiency

Paul Bulcke, Nestlé CEO: "The first half results were in line with our expectations, broad-based across categories and geographies, solid even in difficult circumstances, and consistent with our strong performance over time. They reflect the relevance and strength of our Nutrition, Health and Wellness strategy and our discipline in execution. Our investments in the new growth platforms Nestlé Health Science and Nestlé Skin Health are delivering and complement the good momentum in our food and beverages businesses. This allows us to confirm the outlook for the full year."

Group results

In the first half of 2015 organic growth was 4.5%, composed of 1.7% real internal growth and 2.8% pricing. Total sales of CHF 42.8 billion were impacted by foreign exchange (-5.8%). Acquisitions, net of divestitures, contributed 1% to sales.

- Growth was **broad-based** across categories and geographies.

- Organic growth in the **developed markets** accelerated to 2.2% while in the **emerging markets** we achieved strong organic growth of 7.3%.

- **Organic growth** was 6.6% in the Americas (AMS), 3.4% in Europe, Middle East and North Africa (EMENA) and 2.2% in Asia, Oceania and sub-Saharan Africa (AOA). **Real internal growth** was 1.7% in AMS, 2.4% in EMENA and 0.6% in AOA.

- The continuous efforts to drive cost efficiencies, and the consolidation of Nestlé Skin Health, led to a 160 basis points drop in the **cost of goods sold**. The effect from input costs was neutral.

- Cost reductions were partly reinvested in increased **consumer facing marketing support.** The trading operating profit margin rose by 20 basis points in constant currencies. **Trading operating profit** was CHF 6.4 billion with a margin of 15.0%.

- **Net profit** was CHF 4.5 billion and **reported earnings per share** were CHF 1.43. **Underlying earnings per share** rose 7.3% in constant currencies.

- The group's **operating cash flow** was CHF 3.9 billion reflecting the appreciation of the Swiss Franc, lower dividend income from L'Oréal due to our reduced shareholding and the timing of tax payments.

Zone AMS

Sales of CHF 12.0 billion, 5.2% organic growth, 0.1% real internal growth; 18.0% trading operating profit margin, +10 basis points

- The Zone delivered good organic growth, driven by improvements in our business in North America and positive momentum in Latin America. *Nescafé Dolce Gusto*, creamers and petcare continued to be significant growth drivers.

- In **North America** we relaunched our frozen meals brands with the new *Lean Cuisine Market Place* and *Stouffers Fit Kitchen* ranges. The first signs are promising and indicate that we are meeting the fast-changing expectations of consumers. New additions to the *Snack Bites* range helped deliver solid growth for *Hot Pockets*, and we saw some improvement in frozen pizza. In ice cream, new products delivered solid growth for *Haägen Dazs* in super premium and *Outshine* for snacks. *Coffee-mate* grew well, supported by innovations like *Natural Bliss* and *Coffee-mate 2GO*. Petcare showed good growth, in spite of the negative impact from the *Beneful* case. Among the drivers were *Fancy Feast* cat food, the *Pro Plan* platform for dog food, and cat litter.

- We continued to grow our business in **Latin America** in what is still a volatile environment. Investment behind our growth platforms drove performance in Brazil. *Nescafé Dolce Gusto* and *KitKat* both delivered strong double-digit growth, as did soluble coffee. *Nescau* achieved good growth for cocoa and malt beverages while *Passatempo* and *Nesfit* did well for biscuits. Mexico grew during the first half, led by *Nescafé* and *Coffee-mate*. Petcare continued to be a growth driver for Latin America and will benefit from new production capacity in Argentina and Mexico.

- The Zone's **trading operating profit margin** benefited from operational efficiencies and positive pricing.

Zone EMENA

Sales of CHF 7.9 billion, 3.8% organic growth, 2.0% real internal growth; 16.2% trading operating profit margin, +80 basis points

- After a strong start to the year the different geographies of the Zone continued to grow in spite of the volatile and challenging environment. The solid growth was broad-based with *Nescafé Dolce Gusto*, soluble coffee, petcare and frozen pizza among the highlights. Organic growth was also driven by price increases for coffee and some inflationary pressures in Russia, Ukraine and Turkey, compensating for the deflationary environment in Western Europe.

- Innovation and premiumisation continued to drive the growth in **Western Europe.** Single-serve cat food, *Nescafé Dolce Gusto* and frozen pizza were the main contributors. France, Benelux and the Nordics did well in the deflationary environment. Consumer confidence in Southern Europe was subdued, with Greece having an impact.

- Growth in **Eastern Europe** was strong, driven by petcare, soluble coffee and systems, and by chocolate with *KitKat*. Careful management of pricing in Russia has protected our competitiveness in an inflationary environment. Our business in Ukraine continued to deliver growth, despite the difficult economic situation. There were also solid performances from the Adriatic region, Bulgaria and Hungary.

- The **Middle East and North Africa** region delivered solid growth with soluble coffee and confectionery the highlights. Turkey had strong growth and there were solid performances across the Middle East, compensating for the challenges in Iraq and Yemen.

- The improvement in the Zone's **trading operating profit margin** was driven by product mix and lower input costs that allowed for increased investment in consumer facing marketing support.

Zone AOA

Sales of CHF 7.1 billion, 0.8% organic growth, -0.8% real internal growth; 18.2% trading operating profit margin, -60 basis points

- There were strong results in the Zone's developed markets and a gradual improvement in emerging markets, however the underlying improvement in the Zone's performance was overshadowed by the issue in India.

- In India, our withdrawal of *Maggi* noodles resulted in negative organic growth which will continue into the second half. We are engaging fully with the authorities as we work to relaunch the product.

- The efforts in China to adapt our product portfolio to the changing consumer demand and the lower growth environment led to a gradual improvement across the categories, with ambient dairy, confectionery and soluble coffee all contributing. Ready-to-drink beverages, including *Nescafé*, delivered double-digit growth and ambient culinary made a solid contribution.

- In the **developed markets** Japan continued to perform well thanks to innovation in *KitKat* and in *Nescafé* which launched the premium *Nescafé Gold Blend* in the ready-to-drink format. Despite the intensely competitive trading environment in the Oceania region, the business there contributed to the Zone's positive growth, thanks mainly to confectionery with *KitKat*.

- Vietnam, Indonesia, South Africa, Pakistan and the Philippines were among the highlights in the other **emerging markets**, delivering good growth. Sub-Saharan Africa continued to show good growth with Central West Africa Region regaining momentum after a slower start to the year.

- The **trading operating profit margin** of Zone AOA was affected by the withdrawal and destruction costs of the returned products in India which have already had a material impact in the first half of the year.

Nestlé Waters

Sales of CHF 3.8 billion, 5.3% organic growth, 5.6% real internal growth; 11.5% trading operating profit margin, +110 basis points

- Nestlé Waters delivered solid broad-based growth across both emerging and developed markets, reflecting rising demand for healthy beverages. The business has a strong presence across the different channels globally. *Nestlé Pure Life* again delivered double-digit growth, and there was good single-digit growth for our premium international brands, *Perrier* and *S.Pellegrino*. The local brands also performed well with *Poland Spring* in the US, *Levissima* in Italy, *Erikli* in Turkey, *Al Manhal* in Saudi Arabia and *Buxton* in the United Kingdom all making good contributions.

- The **trading operating profit margin** was driven mainly by the solid organic growth, rigorous cost management and lower input costs, allowing for increased investment in consumer facing marketing support.

Nestlé Nutrition

Sales of CHF 5.3 billion, 3.9% organic growth, 1.3% real internal growth; 23.0% trading operating profit margin, +140 basis points

- Nestlé Nutrition delivered growth across geographies and brands despite difficult comparisons, especially in Asia. The well-supported innovation pipeline continued to deliver new products for the *Nido*, *Nan* and *Cerelac* brands. Wyeth Infant Nutrition delivered good growth, in particular in Asia where the premium brands *S-26* and *Illuma* expanded their e-commerce footprint. The South Asia Region, Mexico and the Philippines performed well for Nestlé Infant Nutrition. In North America innovation in our *Gerber* infant cereals range continued to support growth and there were new product launches in meals and drinks.

- The strong improvement in the **trading operating profit margin** was the result of our portfolio management and underlying margin improvement along with strict control of fixed costs and more favourable input costs. This allowed us to increase investment behind our brands.

Other businesses

Sales of CHF 6.8 billion, 8.1% organic growth, 4.9% real internal growth; 15.8% trading operating profit margin, -250 basis points

- **Nestlé Professional** is regaining growth momentum, with good acceleration in the strategic growth platforms of culinary flavours and beverage solutions. Emerging markets were the main drivers, particularly Latin America, Eastern Europe, Indonesia, Turkey, and Indochina and there was good growth in our culinary business in North America, compensating for the poor trading environment in Western Europe.

- **Nespresso** continued to grow globally, capitalising on the significant development of the portioned coffee segment. It further expanded its Grands Crus range, opened 20 new boutiques around the world, launched a *Nespresso Café* in Vienna and continued the roll-out of the *Nespresso Cube*, an automated retail outlet. Also the *VertuoLine* system in North America performed well.

- **Nestlé Health Science** delivered good growth across all regions and all three business areas. In Consumer Care, growth was supported by new product launches for *Boost* in the US, the continuation of the *Meritene* roll-out in Europe and continued strong growth of *Nutren* in Brazil. In Medical Nutrition, the allergy portfolio delivered good growth across all geographies, in particular *Alfamino*. Novel Therapeutic Nutrition also did well.

- Innovation drove a good performance for **Nestlé Skin Health**. Prescription products achieved very good growth supported by the success of the rosacea treatments *Soolantra* and *Oracea* and the acne treatment *Epiduo*. Aesthetic & Corrective continued to do well with *Restylane Skinboosters*, and the launch of *Restylane Lyft* in the US. The Consumer business delivered a strong performance with *Cetaphil* cleanser and moisturiser, and in the US, *Benzac* over-the-counter was launched.

- The **trading operating profit margin** was impacted by high coffee prices for Nespresso and Nestlé Professional and there was also a dilutive impact on the trading operating profit from the inclusion of Nestlé Skin Health in the first half.

Outlook

The results of the first half allow us to reconfirm our outlook for the full year: we aim to achieve organic growth of around 5% with improvements in margins and 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 2015 Sales in CHF millions	Jan.-June 2015 Organic Growth (%)	Trading operating profit margins	
			Jan.-June 2015 (%)	Change vs Jan.-June 2014 (*)
By operating segment				
• Zone AMS	11'993	+5.2	18.0	+10 bps
• Zone EMENA (a)	7'922	+3.8	16.2	+80 bps
• Zone AOA	7'069	+0.8	18.2	-60 bps
Nestlé Waters	3'767	+5.3	11.5	+110 bps
Nestlé Nutrition	5'282	+3.9	23.0	+140 bps
Other businesses (b)	6'810	+8.1	15.8	-250 bps
Total Group	42'843	+4.5	15.0	0 bps
By product				
Powdered and liquid beverages	9'371	+5.3	22.5	-130 bps
Water	3'510	+5.5	11.9	+70 bps
Milk products and ice cream	7'191	+0.8	16.7	+160 bps
Nutrition and Health Science (b)	7'346	+7.3	19.0	-160 bps
Prepared dishes and cooking aids	6'062	+0.8	12.1	-60 bps
Confectionery	3'898	+8.5	11.1	+50 bps
Petcare	5'465	+4.9	21.0	+110 bps
Total Group	42'843	+4.5	15.0	0 bps

(*) 2014 figures have been restated on the following main transfers, effective as from 1 January 2015:

- *the Maghreb, the Middle East, the North East Africa region, Turkey and Israel in Zone Asia, Oceania and Africa to Zone Europe;*
- *Growing-Up Milks business in the geographic Zones to Nestlé Nutrition;*
- *Bübchen business in Nestlé Nutrition to Other businesses.*

a) Renamed following the above mentioned reorganisation.
b) Renamed following the creation of Nestlé Skin Health as from July 2014.